NYSBA FALL/WINTER 2004 | VOLUME 15 | NO. 3

Entertainment, Arts and Sports Law Journal

A publication of the Entertainment, Arts and Sports Law Section of the New York State Bar Association

Remarks From the Chair/Editor's Note

Remarks from the Chair

Elissa D. Hecker

In September, the EASL Executive Committee held its first annual planning Retreat, where the focus was how to make the EASL Section better serve its members. The following were among the topics that were addressed:

- The makeup of the Executive Committee
- EASL bylaws
- The budget
- Committees
- Communication
- Pro Bono programming
- Diversity
- Legislation
- Increase visibility/membership
- Cross promotion within the EASL Section and with other organizations.

We have recently almost doubled the size of the Executive Committee, so that most standing committees now have co-chairs, in order to provide more programming and discussions. Each committee must hold at

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SPECIAL: ANNUAL MEETING ISSUE

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least two programs or meetings per year, and most of the committee chairs have already brainstormed enough ideas to last two years. In addition, we have begun an outreach effort to ensure that those EASL members who wish to be on committees are, so that no programs, CLE opportunities or meetings are missed. As part of our increased service to our members, both our website and membership materials will include detailed information about each EASL committee. Please visit our website at www.nysba.org/easl for more committee information. In addition, Executive Committee members will be designated as Ambassadors (identifiable by yellow ribbons) at every EASL gathering, to better help those who have questions. Please feel free to approach any Ambassador that you see at any time, with questions, suggestions or concerns.

In order to help facilitate programming, Jeffrey Rosenthal (EASL's immediate past Chair) and I are writing a Committee Chair Handbook for all committee chairs and district representatives, so that they can better navigate their positions and serve the membership. Our goal is to enable every EASL member to participate in Section and committee programs. In that vein, efforts are underway to incorporate the district representatives in the planning stages of all meetings, programs and events, so that members outside of New York City will have the opportunity to participate in or attend remotely (i.e., via telephone or video conferencing), and for those programs that provide CLE credit, obtain the credits.

In addition, Peter Herbert (immediate past Chair of the Litigation Committee) will be working in conjunction with the Publications Committee to create an annually updated EASL Section Handbook, highlighting important cases and decisions in the areas of entertainment, art and sports law. This should prove to be a valuable resource that will be provided on a complimentary basis to all EASL members.

We also voted to amend the bylaws (this will need to be approved and voted into effect by the entire EASL Section at the Annual Meeting on January 24, 2005), to add six members-at-large to be invited by the Chair, updated the language to reflect the two-year terms that officers serve and added language stating that no Executive Committee member may miss more than two meetings of the Committee per year (absent extenuating circumstances).

As Elisabeth mentions in her Pro Bono Update, a major focus of the Retreat was to discuss expanding the breadth and depth of our existing Pro Bono programming. We would like the EASL Section Pro Bono efforts to set an example, by instituting an organizational structure where Pro Bono permeates every reach of the Section. We also want to show attorneys how enriching, interesting and fun Pro Bono can be. The Pro Bono services that we would like to encourage include speaking in schools about a legal career, mentoring, staffing the VLA clinics and taking on major litigation. We are working to introduce several non-traditional types (in addition to litigation and VLA clinics) of Pro Bono activities available to our members so that you can select which best fits your practice.

Finally, the EASL Section's Annual Meeting panels will be held during the afternoon session of January 24, 2005 at the New York Marriott Marquis. The programs are entitled: "Branding of Entertainment, the Media and the First Amendment—Legal Challenges" and "Indecency, the FCC and the Media." They will prove to be thought-provoking, timely and entertaining, and will provide an ample dose of CLE credits. I look forward to seeing you there!

Editor's Note

This issue of the *Journal* publishes several timely and interesting articles that encompass the fields of entertainment, art and sports law. There was a record number of Law Student Initiative submissions, and three winning articles were selected: "Howard Stern, The Iconic Symbol of Freedom or Indecency: Who Decides?" by Tamar Jeknavorian; "The Not-So-Uniform Athlete Agents Act: Why Current Regulation Efforts Fail to Deter Unscrupulous Conduct," by Jacob F. Lamme; and "The Law Regarding Fine Art Theft and Fraud—A Confusing Landscape," by Harvey R. Manes.

Once more, please be advised that authors can obtain CLE credit from having an article published in the *EASL Journal*. Articles or letters to the editor may be submitted with biographical information either via e-mail to: eheckeresq@yahoo.com or mail on a disk along with a printed original to:

Elissa D. Hecker, Esq.
51 West 86th Street, Suite 405
New York, NY 10024.

THE NEXT DEADLINE IS DECEMBER 10, 2004

Elissa D. Hecker works on legal, educational and policy matters concerning many aspects of copyright and corporate law. In addition to her activities in the EASL Section, Ms. Hecker is also a frequent lecturer and panelist, a member of the NYSBA's Committees on CLE and Publications and a member of the Copyright Society of the U.S.A.

NYSBA Guidelines for Obtaining MCLE Credit for Writing

Under New York's Mandatory CLE Rule, MCLE credits may be earned for legal research-based writing, directed to an attorney audience. This might take the form of an article for a periodical, or work on a book. The applicable portion of the MCLE Rule, at Part 1500.22(h), states:

> *Credit may be earned for legal research-based writing upon application to the CLE Board, provided the activity (i) produced material published or to be published in the form of an article, chapter or book written, in whole or in substantial part, by the applicant, and (ii) contributed substantially to the continuing legal education of the applicant and other attorneys. Authorship of articles for general circulation, newspapers or magazines directed to a non-lawyer audience does not qualify for CLE credit. Allocation of credit of jointly authored publications should be divided between or among the joint authors to reflect the proportional effort devoted to the research and writing of the publication.*

Further explanation of this portion of the rule is provided in the regulations and guidelines that pertain to the rule. At section 3.c.9 of those regulations and guidelines, one finds the specific criteria and procedure for earning credits for writing. In brief, they are as follows:

- The writing must be such that it contributes substantially to the continuing legal education of the author and other attorneys;
- it must be published or accepted for publication;
- it must have been written in whole or in substantial part by the applicant;
- one credit is given for each hour of research or writing, up to a maximum of 12 credits;
- a maximum of 12 credit hours may be earned for writing in any one reporting cycle;
- articles written for general circulation newspapers and magazines directed at nonlawyer audiences do not qualify for credit;
- only writings published or accepted for publication after January 1, 1998 can be used to earn credits;
- credit (a maximum of 12) can be earned for updates and revisions of materials previously granted credit within any one reporting cycle;
- no credit can be earned for editing such writings;
- allocation of credit for jointly authorized publications shall be divided between or among the joint authors to reflect the proportional effort devoted to the research or writing of the publication;
- only attorneys admitted more than 24 months may earn credits for writing.

In order to receive credit, the applicant must send a copy of the writing to the New York State Continuing Legal Education Board, 25 Beaver Street, 8th Floor, New York, New York 10004. A completed application should be sent with the materials (the application form can be downloaded from the Unified Court System's Web site, at this address: http://www.courts.state.ny.us/mcle.htm (click on "Publication Credit Application" near the bottom of the page). After review of the application and materials, the Board will notify the applicant by first-class mail of its decision and the number of credits earned.

Congratulations to the Law Student Initiative Selected Authors:

***Tamar Jeknavorian of St. John's University School of Law*, for:**
"Howard Stern, The Iconic Symbol of Freedom or Indecency: Who Decides?"

***Jacob F. Lamme of Albany Law School*, for:**
"The Not-So-Uniform Athlete Agents Act:
Why Current Regulation Efforts Fail to Deter Unscrupulous Conduct"

***Harvey R. Manes of Hofstra University School of Law*, for:**
"The Law Regarding Fine Art Theft and Fraud—A Confusing Landscape"

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New York State Bar Association
Entertainment, Arts and Sports Law Section

Law Student Initiative

The Entertainment, Arts and Sports Law (EASL) Section of the New York State Bar Association has an initiative giving law students a chance to publish articles both in the *EASL Journal* as well as on the EASL Web site. The Initiative is designed to bridge the gap between students and the entertainment, arts and sports law communities and shed light on students' diverse perspectives in areas of practice of mutual interest to students and Section member practitioners.

Law school students who have interests in entertainment, art and/or sports law and who are members of the EASL Section are invited to submit articles. This Initiative is unique, as it grants students the opportunity to be *published and gain exposure* in these highly competitive areas of practice. The *EASL Journal* is among the profession's foremost law journals. Both it and the Web site have wide national distribution.

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To foster an interest in entertainment, art and sports law as a career path, the EASL Section invites law students who are Section members to participate in its Law Student Initiative:

Requirements

- **Eligibility**: Open to all full-time and part-time J.D. candidates who are EASL Section members.
- **Form:** Include complete contact information; name, mailing address, law school, law school club/organization (if applicable), phone number and e-mail address. There is no length requirement. Any notes must be in *Bluebook* endnote form. An author's blurb must also be included.
- **Deadline:** Submissions must be received by December 10, 2004.
- **Submissions**: Articles must be submitted via a Word e-mail attachment to eheckeresq@yahoo.com or accompanied by a hard copy and on a diskette in Word to:

  Elissa D. Hecker, Esq.
  51 West 86th Street, Suite 405
  New York, NY 10024

Topics

Each student may write on the subject matter of his/her choice, so long as it is unique to the entertainment, art and sports law fields.

Judging

Submissions will be judged on the basis of quality of writing, originality and thoroughness.

Winning submissions will be published in the *EASL Journal*. All winners will receive complimentary memberships to the EASL Section for the following year. In addition, the winning entrants will be featured in the *EASL Journal* and on our Web site, and all winners will be announced at the EASL Section Annual Meeting.

EASL Pro Bono Update

By Elisabeth K. Wolfe

The EASL Executive Committee recently held a Retreat in order to discuss the future of the Section, and expanding the breadth and depth of our existing Pro Bono programming was a major focus of that discussion. I am excited to be a part of it!

This issue of the Pro Bono Update will be focused on our volunteers. Over the past two-and-a-half years, I have watched as these EASL members have donated hours of their time to help others. My hope is that some of their thoughts will inspire others to volunteer.

Elisabeth K. Wolfe
Pro Bono Chair, EASL

Why Do You Continue to Do Pro Bono Work?

"I don't remember where or when, but it once occurred to me that except for one man who helped me get into the grad school I so wanted to attend, I can't remember any one who ever helped me do something that I wanted to do. That's why I volunteer at VLA, to help young people be on their way to accomplishing something they desire."

—James H. Ellis is Co-Chair of the EASL Theatre and Performing Arts Committee

"I feel very lucky to have been successful doing what I really love to do and I want to give something back. I also want to support the arts, which is fundamentally dependent on the development of new talent and ideas."

—Barry Jay Reiss is Of Counsel to Serling Rooks & Ferrara

"Pro bono is one of the most important things a lawyer can offer. Aside from helping those who cannot afford legal fees, lawyers who do pro bono work are promoting the good in the legal profession and combating bad stereotypes of greedy and immoral lawyers. Mostly however, pro bono work helps free artists from worries and problems that inhibit their creativity, alleviating concerns and enabling them to do what they do best, which is to create."

—Elissa D. Hecker is Chair of the EASL Section

"The positive impact we have on others' lives when we use our knowledge, judgment and skills on behalf of those who would not otherwise have the means to engage it is immeasurable. Even with just a modest commitment of our time and efforts, the relief a client feels from a seemingly unsolvable dilemma now dispelled, and the warm smiles and appreciation it brings, remind us how satisfying our profession can be."

—Josh Bressler is Co-Chair of the EASL Publicity, Privacy and Media Committee

"It's my way of giving something back to the artistic community."

—Judith Prowda is Chair of the EASL Fine Arts Committee

In the Spotlight

The Moth

The Moth is a 501(c)3 not-for-profit organization that celebrates the art of storytelling with a variety of programs. Through storytelling, The Moth satisfies our vital need for connection by celebrating the diversity and commonality of human experience. One goal of The Moth is to entertain, but it also aims to stir up stories in those who think they have nothing to say. It is The Moth's sincerest hope that a good story, "like King Solomon's wine that goeth down sweetly, will caress the lips of those who are asleep to speak." For more information about this incredible organization, check out www.themoth.org.

New York Women in Film & Television

New York Women in Film & Television is one of the preeminent entertainment industry associations for women in New York City. Dedicated to helping women reach the highest levels of achievement in film, television and new media, and promoting equity for women in these industries, NYWIFT produces over 50 innovative programs and special events each year. NYWIFT's membership includes more than 1,250 women working in all areas of the film, television and new media industries. Founded in 1978, NYWIFT represents more than 10,000 members and is part of a network of 40 worldwide organizations devoted to women in film. For more information about NYWIFT, check out its website at www.nywift.org.

Jim Ellis, Judith Prowda and Mary Ann Zimmer

Barry J. Reiss

Jennifer Romano, Judith Prowda and Alan Barson

Holly Schepisi

EASL and VLA Kick Off the Year with a Successful Clinic

On October 6, 2004, EASL co-sponsored a legal clinic at VLA. Eleven attorneys from the EASL Section volunteered to counsel clients in half-hour sessions and a total of 20 clients were advised. Client issues spanned from music and fine arts to film and photography. Jeffrey Klein, VLA Case Placement Coordinator, and Chris MacDougall, VLA Pro Bono Coordinator, facilitated the process. Many thanks to Elena Paul, VLA's Executive Director, and her staff for enabling EASL to continue co-sponsoring these clinics. In addition, thank you to our volunteers:

Alan Barson
Josh Bressler
Jim Ellis
Andrew Gurwitch
Elissa D. Hecker
Judith Prowda
Barry J. Reiss
Jennifer Romano
Holly Schepisi
Mary Ann Zimmer

We look forward to working together at the next clinic on **February 9, 2005.**

Jim Ellis

Jeff Klein and Chris MacDougall

Elisabeth Wolfe and Elissa Hecker

Entertainment, Arts and Sports Law Section and BMI Offer Phil Cowan Memorial Law School Scholarship

The Entertainment, Arts and Sports Law Section of the New York State Bar Association, in partnership with BMI, will fund up to two partial scholarships to law students committed to practicing in one or more areas of entertainment, art or sports law.

The Phil Cowan/BMI Scholarship fund looks to provide up to two $2,500 awards on an annual basis in memory of Cowan, a past Section chair. Each candidate must write an original paper on legal issues of current interest in the areas of entertainment, art or sports law. The competition is open to all students attending accredited law schools in New York State along with Rutgers and Seton Hall law schools in New Jersey. In addition, up to ten other law schools at any one time throughout the United States shall be selected to participate in the competition on a rotating basis. Students from other "qualified" law schools should direct questions to the deans of their respective schools.

The paper should be 12–15 pages in length, including footnotes, double-spaced, in *Bluebook* form. Papers should be submitted to each law school's designated faculty member. Each school will screen its candidates' work and submit no more than three papers to the Scholarship Committee. The committee will select the scholarship recipient(s).

Submission deadlines are the following: October 1, 2005 for student submissions to their respective law schools for initial screening; November 15th for law school submissions of up to three papers to the committee. The committee will determine recipient(s) on January 15th. Scholarships will be awarded during the Section's Annual Meeting in late January.

Payment of scholarship funds will be made directly to the recipient's law school and credited to the student's account.

Law School Scholarships

The committee reserves the right to award only one scholarship, or not to award a scholarship, in any given year.

The scholarship fund is also pleased to accept donations, which are tax-deductible. Donation checks should be made payable to The New York Bar Foundation, designating that the money is to be used for the Phil Cowan Memorial/BMI Scholarship, and sent to Kristin O'Brien, Director of Finance, New York State Bar Foundation, One Elk St., Albany, N.Y. 12207.

Cowan chaired the EASL Section from 1992–94. He earned his law degree from Cornell Law School, and was a frequent lecturer on copyright and entertainment law issues.

About BMI

BMI is an American performing rights organization that represents approximately 300,000 songwriters, composers and music publishers in all genres of music. The non-profit-making company, founded in 1940, collects license fees on behalf of the American creators it represents, as well as thousands of creators from around the world who chose BMI for representation in the United States. The license fees collected for the "public performances" of its repertoire of approximately 4.5 million compositions are then distributed as royalties to BMI-member writers, composers and copyright holders.

About NYSBA

The 72,000-member New York State Bar Association is the official statewide organization of lawyers in New York and the largest voluntary state bar association in the nation. Founded in 1876, NYSBA programs and activities have continuously served the public and improved the justice system for more than 125 years.

The more than 1,700 members of the Entertainment, Arts and Sports Law Section of the NYSBA represent varied interests, including issues making headlines, being debated in Congress and heard by the courts today. The EASL Section provides substantive case law, forums for discussion, debate and information-sharing, pro bono opportunities, and access to unique resources including its popular publication, the *Entertainment, Arts and Sports Law Journal*.

Brand Names in Entertainment: The Trend, and the Controversy, Grows

By Ronald R. Urbach, Martin Garbus and James L. Johnston

From the *Little Orphan Annie* radio show sponsored by Ovaltine in the 1930s and 1940s, to the *Texaco Star Theater* of the late 1940s and early 1950s, to this last summer's second season of *Pepsi Smash* on The WB television network, the presence of advertisers and brand names in popular entertainment has again come full circle. This latest iteration of the branded entertainment phenomenon is penetrating every form of media. In print, marketers such as Abercrombie & Fitch are blurring the lines between catalogs and magazines. On the Internet, Sony Electronics is taking the concept of advertorials to the next level, with web-based articles written by Sony staff and its advertising agency, which appeared on such editorial sites as nationalgeographic.com and Wired.com—not as advertisements, but as content. Similarly, BMW is expanding the boundaries of advertising formats on the web with the bmwfilms.com website, where the short films featuring BMW automobiles are the attraction, not an advertising distraction.

Yet nowhere has this practice become more prevalent or controversial than on television. Befitting its status as America's dominant mass media, the recent resurgence of branded entertainment in television has been hailed as an opportunity to engage consumers in a different and meaningful way by marketers and has provoked anger and complaints by media watchdogs who object to the commercialization of American culture.

At the center of the current debate over the legitimacy of branded entertainment is Commercial Alert, which has petitioned the Federal Trade Commission (FTC) and the Federal Communications Commission (FCC) to initiate rulemaking to regulate product placement practices in television programming. Commercial Alert's proposal would require real-time "pop-up" notifications of any product placement arrangement in television programming. Yet this proposal would have First Amendment implications that extend far beyond the issue of notifications. It would fundamentally alter a form of communication which has traditionally been accorded the deference of core First Amendment speech.

What Is Branded Entertainment?

Branded entertainment in television, sometimes referred to as product placement, product integration or strategic entertainment, can take many forms. Its recent resurgence coincides with the rise of reality television, where a lack of scripts and a focus on "real world" situations lend themselves to the integration of products and brand names. At its most basic, branded entertainment can take the form of passive product placement, such as the prominent depiction of the Coca-Cola name and marks in the program "American Idol," or the American Eagle apparel that each cast member on the patriarch of reality programs, "The Real World," wears. In other cases, the product is integrated into the "story line" for the program, such as the use of the American Express card by the proprietor of "The Restaurant." Sometimes, branded entertainment appears as a form of sponsorship, with marketers like Pepsi attaching their names to programs such as *Pepsi Smash* in much the same way Texaco did over 50 years ago. Meanwhile, other marketers are attempting to combine various of these elements, as Ford Motor Company attempted through its participation in the "No Boundaries" television program, which shared its title with the tagline for Ford's truck and SUV lines, and prominently featured Ford vehicles in this outdoor-themed reality program.

What Is the Fuss About?

Those, such as Commercial Alert, who oppose these various forms of branded entertainment or seek more stringent disclosures, maintain that product placement is so ubiquitous that television programs are becoming comparable to infomercials, without incorporating the sponsorship disclosures required of infomercials. Furthermore, these advocates argue, television programs not only neglect to identify their sponsors, but the current product integration practices "fail to identify the ads themselves, and instead pretend that the ads are merely part of shows."[1] Without adequate disclosure, these advocates argue that product placement is "an unfair and deceptive advertising practice. It is inherently deceptive, because it is often below viewers' threshold of awareness." In an effort to thwart this "affront to honesty"[2] and uphold "fair dealing,"[3] many who object to the prevalence of product placements are calling for regulations to require real time pop-up disclosures indicating that product placements are paid advertising. To be effective, Commercial Alert notes that the disclosures must be of a size, and remain on-screen for a length of time, such that the audience will certainly notice and understand them.

On the other side of this argument are media organizations, advertising coalitions and lawyers traditionally concerned with First Amendment issues. The Freedom to Advertise Coalition ("FAC"), which represents advertisers and media, and the Washington Legal Foundation ("WLF"), a public interest law and policy center, are two organizations that sharply oppose the central argument in Commercial Alert's petition. The FAC asserts that "product placement can be an essential ingredient in the story being told through a program."[4] Products often become an important part of the story by communicating traits of a character or era that simply could not be demonstrated so effectively via dialogue. Advocates of this position claim that "Seinfeld" would not have been the same without the Yoo Hoo, Bosco, Snapple, Drake's coffee cakes, and ubiquitous boxes of brand-name cereals that occupied a permanent position on his kitchen shelf. Nondescript boxes of generic flakes and puffs would not have been quite as effective in silently communicating Seinfeld's boyish and bachelor tendencies. Similarly, Drake's, a brand not available in Hollywood, conveyed a sense of place on that program as much as the diners, subways and taxicabs in which the characters spent their time.

The views outlined by these organizations represent starkly different visions of how product placements should be viewed. Yet they represent only the beginning of a much larger debate over the scrutiny which will be applied to communications in which marketers are involved, regardless of the scope of that involvement.

What Does It Mean?

The proposal advocated by Commercial Alert would dramatically alter television programming. WLF fears that the proposed rule would impair or even effectively sound the death knell for product placement on television. The large and conspicuous pop-up disclosures envisioned by Commercial Alert will certainly be disruptive. The FAC has called them "extreme," "impractical," and bordering on "ludicrous."[5] The pop-ups may, the FAC asserts, make television "virtually impossible to watch."[6] As such, networks may elect to forgo product placements altogether. However, this may have an equally detrimental effect on the quality of programming. For those who produce television programming, product placements have become a valuable offset against the rising costs of production. The loss of this offset could have a significant impact on production budgets, reducing the amount spent on programming or altering the mix and type of programming available. Moreover, networks would lose a valuable resource in keeping advertisers in the television marketplace, spending their money on the 30-second commercials that pay for the rest of the programming.

The likelihood of the Commercial Alert proposal being adopted by either the FTC or FCC is probably low. In 1992 the FTC denied a similar industry-wide rulemaking petition brought by the Center for the Study of Commercialism (CSC). In its petition, the CSC requested that the FTC require movie studios to disclose paid product placements at the beginning of each movie. In its response, the FTC stated that "[d]ue to the apparent lack of a pervasive pattern of deception and substantial consumer injury attributable to product placements . . . an industry-wide rulemaking is inappropriate . . ."[7] While it declined to promulgate the proposed rule, the FTC stated that it would address situations where product placement purportedly led to consumer injury on a case-by-case basis.

While it is possible that the passage of time may lead to a different result, Commercial Alert has not identified any specific consumer harm as a result of the product placement strategies that it protests. As a basis for its allegations, Commercial Alert points to numerous sources indicating the increased use and effectiveness of product placement. However, the petition does not tie product placement to any specific consumer injury, and, as WLF has pointed out, provides no reason to overturn the FTC's prior determination. Mere complaints that product placement is effective as a form of marketing does not lend support to broad, vague allegations of harm to consumers. Moreover, the method of disclosure suggested by the CSC is far less disruptive to programming than the real-time pop-up disclosures recommended by Commercial Alert.

Even lesser remedies, such as more comprehensive (though not real-time) disclosures, will likely need to demonstrate more tangible consumer harm than has been articulated to date by Commercial Alert and those who support its position.

Beyond Product Placement

The current battle over product placement disclosures is only one area in which the debate over the place of marketers in the national dialogue is taking place. There has been a growing effort to characterize any communication that has a marketer as its source as being entitled to less First Amendment protection than those originating from other sources. In addition to the product placement debate, the *Nike v. Kasky*[8] case demonstrates that this heightened scrutiny is occurring in other media as well.

If this concept continues to take hold, it would have a potentially overwhelming effect on the entire category of branded entertainment. If the mere existence of product placements require prominent, real-time disclosures to identify them as advertisements, what is the next level of scrutiny that will be applied to these transactions? If a specific brand of automobile is featured in a car chase in a television program as a result of a product integration transaction with the automaker, would a "Closed course. Professional driver" disclosure be warranted? If that vehicle is hit with gunfire or flips over, must the program disclose any modifications to, or optional equipment in, the vehicle in the program? If the character of a situation comedy regularly consumes a specific brand of alcohol as a result of a product integration transaction with the importer or distributor, would a "responsible drinker" disclosure be required? Would that person be prohibited from getting into an automobile, since it might be inherently deceptive to show someone driving safely after consuming alcohol beverages?

While these suggestions may seem extreme, they represent exactly the type of disclosure obligations that marketers regularly deal with in traditional advertising. Equating television programming that included branded entertainment with traditional commercials, as Commercial Alert appears to be doing, leads us down this path and creates a substantial chilling effect on the ability of television producers to create story lines featuring real products and brands. Even if the FTC and FCC did not expressly take such an extreme position, any extension of the current product placement disclosure requirements would likely lead broadcasters to be much more conservative and render the entire branded entertainment category unnecessarily risky and irrelevant.

Some argue that this is precisely Commercial Alert's goal. They contend that it is not disclosure, but the elimination of product placements that Commercial Alert hopes will be the end result of its efforts. While this is unlikely, it is important for the media and advertising industries to understand that this debate over disclosures has potentially far-reaching consequences that could forever alter the long-standing relationship between brands and entertainment.

Endnotes

1. Letter from Gary Ruskin, Executive Director, Commercial Alert, Re: Complaint, Request for Investigation, and Petition for Rulemaking to Establish Adequate Disclosure of Product Placement on Television, to Marlene H. Dortch, Secretary, Federal Communications Commission (Sept. 30, 2003) (hereinafter referred to as "CA Letter to FCC"); Letter from Gary Ruskin, Executive Director, Commercial Alert, Re: Request for Investigation of Product Placement on Television and for Guidelines to Require Adequate Disclosure of TV Product Placement, to Donald Clark, Secretary, Federal Trade Commission (Sept. 30, 2003) (hereinafter referred to as "CA Letter to FTC"). Both letters are posted at www.commercialalert.org.
2. CA Letter to FCC, at p. 12.
3. CA Letter to FTC, at p. 3.
4. Letter from Darryl Nirenberg, Counsel, and Penelope Farthing, Counsel, Freedom to Advertise Coalition, Re: Opposition to Request for Investigation of Product Placement on Television and for Guidelines to Require Adequate Disclosure of TV Product Placement, to Donald Clark, Secretary, Federal Trade Commission (Nov. 12, 2003), (hereinafter referred to as "FAC's Letter to FTC"); Letter from Darryl Nirenberg, Counsel, and Penelope Farthing, Counsel, Freedom to Advertise Coalition, Re: Opposition to Petition for Rulemaking related to Disclosure of Product Placement on Television, to Marlene H. Dortch, Secretary, Federal Communications Commission (Nov. 12, 2003) (hereinafter referred to as "FAC's Letter to FCC"). Both Letters are posted at www.ana.net/news/2003/11_12_03_fac.cfm.
5. FAC's Letter to FTC at p. 2.
6. FAC's Letter to FCC at p. 5.
7. Federal Trade Commission, FTC Denies CSC's Petition to Promulgate Rule on Product Placement in Movies, Dec. 11, 1992. *See* www.ftc.gov/opa/predawn/F93/scs-petit5.htm.
8. *Nike, Inc. v. Kasky*, *cert. dism'd*, 123 S. Ct. 2554 (2003). At issue is whether Nike's responses to allegations of unfair labor practices abroad in the form of press releases and other communications is subject to the same First Amendment protections as the statements of its foes in the international labor debate, or some lesser degree of protection.

Ronald R. Urbach is Co-Chair of and James L. Johnston is an Associate in the Advertising, Marketing and Promotions Department of New York-based Davis & Gilbert LLP. Mr. Urbach's e-mail address is rurbach@dglaw.com and Mr. Johnston's e-mail address is jjohnston@dglaw.com. Martin Garbus is a Partner in the firm's Litigation Department. His e-mail address is mgarbus@dglaw.com.

Martha Graham Has Another Hit

By James H. Ellis

Affirmed

On August 18, 2004, The United States Court of Appeals for the Second Circuit overwhelmingly affirmed the United States District Court's rulings regarding the Martha Graham Center for Contemporary Dance's (the "Center") ownership of dances choreographed by Martha Graham, along with related sets and costumes. The panel of judges (Newman, Kearse and Pooler) who rendered this decision all have extensive expertise in the area of intellectual property.

Since Ms. Graham was associated with the dance company, the school or its predecessors for 50 years (including the year when the copyright laws changed), the appellate court categorized the dances that she created by year, and was then able to determine which ones belonged to whom based on when each dance was created in accordance with the law that existed at that time. The appellate court affirmed the trial court's findings that Martha Graham assigned all of the dances created before 1956 to the Center. The court also found that Martha Graham was an employee of the Center and that works created between 1966 and her death in 1991 were works-for-hire. The opinion stated that "[t]he primary issue is whether the work-for-hire doctrine applies to works created by the principal employee of a corporation that was, in the Appellants' view created to serve the creative endeavors of an artistic genius." The Second Circuit remanded seven dances to the district court for further findings regarding Graham's job responsibilities. The Center was represented by a legal team from Cravath Swaine & Moore, and was led by Katherine B. Forrest and Joanne M. Gentile.

History

(The following history was taken from the court's opinion, which can be found at marthagrahamdance.org.)

Martha Graham became acquainted with Ron Protas in the late 1960s. They became friends, and although Protas had no previous dance background, Graham increasingly trusted him to represent her in both personal and professional matters. She installed him as the Center's General Director. In her last will (signed in 1989, two years before her death), Graham named Protas the executor and, significant to this case, bequeathed to him, in addition to her personal property, her residuary estate, including any right or interest in "dance works, musical scores, scenery sets, (her) personal papers and the use of (her) name." However, the will did not identify what her interests might be.

After Graham's death in 1991, Protas became Artistic Director of the Center. In 1992, his lawyers suggested that he ascertain what items of intellectual property had passed to him under Graham's will. He did not so do, but nevertheless asserted ownership of copyrights in all of Graham's dances and of all the sets and properties at issue in this appeal. In 1998, he placed the copyrights in the Martha Graham Trust (the "Trust"), a revocable trust that he had created and of which he was trustee and sole beneficiary.

"'There was evidence that Protas ignored questions that surfaced from several sources about his ownership of the dances, sets, and costumes, and made assertions regarding ownership of these items. . . . These assertions were, at best, irresponsibly made, and at worst, intentionally misleading.'"

During the 1990s, the Trust licensed many of the dances and sets to various licensees. In 1993, Protas assigned to the Center 40 percent of what he claimed was his 100 percent interest in the Noguchi sculpture "Herodiade." In 1998, Protas arranged for the Trust to sell for $500,000 to the Library of Congress numerous properties, such as books, musical scores, films and tapes of performances and rehearsals of dances, and business and personnel files relating to Graham's works.

Findings

The remainder of the court's findings—that Ron Protas breached his fiduciary duty to the Center and owes damages for licensing fees he inappropriately pocketed, and that the sets and costumes are owned by the Center—were also affirmed. With respect to the breach of fiduciary duty, the court stated that: "There was evidence that Protas ignored questions that surfaced from several sources about his ownership of the dances, sets, and costumes, and made assertions regarding ownership of these items to the Center's board of directors and to third parties. These assertions were, at best, irresponsibly made, and at worst, intentionally misleading."

(For an interesting discussion of the Work-for-Hire Doctrine and how the appellate court "implicitly ignored the principle of moral rights, which governs this type of situation under European civil law," read "Dirty Dancing: The Moral Right of Attribution, the Work-for-Hire Doctrine and the Usurping of the Ultimate Grand Dame and Founder of Modern Dance, Martha Graham," by Holly Rich and Sarah Kutner, which appeared in the Summer 2004, Volume 15, No. 2 issue of the *Entertainment, Arts and Sports Law Journal*.)

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The Law Regarding Fine Art Theft and Fraud—A Confusing Landscape

By Harvey R. Manes, M.D.

This article will discuss the confusing legal landscape of art theft and fraud and propose some solutions that address this growing problem. Art theft and fraud have risen alarmingly over the past few decades and estimates reveal that the problem is costing the world economy billions of dollars.[1] The current laws governing stolen or fraudulent works of art are confusing, contradictory and may vary from one jurisdiction to the next. As a result, innocent parties are not properly protected. Frequently, the plaintiff and defendant are from different states or countries, and the artwork might be located at yet a third location. While one jurisdiction may be more protective of the original owner or seller of a piece, another court may be more protective of the good-faith buyer. Since the days of Hammurabi, scholars have grappled with the issue of who has superior title as between the good-faith purchaser (GFP) and the original owner.[2] Children have attempted to clarify this issue by reciting the adage "finders keepers, losers weepers." It is the author's contention that there are serious flaws in the current system and much could be done to update the national and international legal code as it applies to these issues.

Art fraud involves the creation of a work of art that copies the style of a well-known artist with the intent to deceive the buyer and profit from the deception. The forger succeeds in this endeavor if he is able to fool established experts in the field, such as museum curators, conservators, and sophisticated dealers, into believing the work is by an acknowledged master. Finally, the GFP buys the piece and then frequently bears the financial burden of the hoax because he assumes that the experts can be relied upon to distinguish an original from a fake. Once the fraud is discovered, the courts are asked to decide who should sustain the monetary loss, the GFP or the innocent but mistaken dealer. Occasionally, the dealer actually conspires to perpetrate the fraud, and if caught will deny his involvement. It is difficult to prove that the dishonest dealer had knowledge of the deception. To make matters worse, when a victim is duped, he will frequently not report the crime. "In the art world, crying "fake" is surprisingly difficult . . . few people are willing to burn bridges by speaking out."[3]

Art theft involves an authentic work of art that is stolen from the original owner and then sold or transferred to an unknowing museum, dealer or collector. "With between 45,000 and 53,000 art thefts taking place throughout the world every year it is no exaggeration to say that art theft has reached epidemic proportions."[4] Skyrocketing art prices have made theft very attractive to criminals. Art theft is estimated to be second only to drug trafficking as the most profitable form of illegal trade.[5] (In the years between 1988 an 1991, the art theft rate in New York had more than tripled.[6]) Once the artwork is discovered to be stolen, the courts must then decide whether the piece should be returned to the original owner and who should be held responsible for the monetary loss. Unfortunately, the courts of different countries and states reach different conclusions. The civil law nations (e.g., Switzerland, Germany, France, Italy, Mexico) favor the GFP, while the common law nations (e.g., the United States, Great Britain, Canada) favor the original owner.[7] The difference in the law between these nations facilitates "art laundering."[8] For example, because of its liberal laws that favor the GFP, Switzerland is considered a haven for art theft.[9]

Art theft is similar to art fraud because somewhere in the chain of transfer of title, a fraud is committed. The unknowing and innocent buyers in both arenas include art dealers, museums and retail clients, all of whom stand to lose large sums of money. Whether there is fraud or theft, the courts often have to make the difficult decision as to "who should be left holding the bag" between two innocents, the innocent seller or original owner and the unsuspecting buyer. Unfortunately, the courts have failed to develop uniform standards.

This article will examine the existing legal regimen and provide a sampling of well-known cases that illustrate how the courts currently handle art fraud and art theft. It will describe examples of art fraud cases, and present examples involving stolen art and the state of the law regarding this issue. Finally, this article will conclude with recommendations for changes in the law based on fairness and logic, in order to protect the rights of all those involved in an attempt to counteract the epidemic that currently exists.

The Issue of Art Fraud

Depending on the jurisdiction and the facts of the case, a suit for art fraud can be heard in either contracts or torts. Even though the issues with regard to fine art are different from those involving other forms of personal property, fine art is still classified under the general category of "goods."[10] The Uniform Commercial Code (UCC) warrantee can either be express under section 2-313, which means that the seller guarantees the validity of the goods in writing, or implied, under sections 2-314 and 2-315, which means that the goods sold are what they purport to be and are merchantable. These provisions go beyond the doctrine of caveat emptor and are a kind of a strict liability similar to product liability found in torts. The statute of limitations (SOL) under the UCC § 2-725 is four years from the time of purchase. This relatively short limitation puts the buyers at a disadvantage, as frequently the fraud or negligence is not discovered until many years later. However, the UCC assumes that both parties are sophisticated and therefore the buyer is expected to find the mistake within the four-year period. The "code" does not consider the fact that the retail buyer is frequently not sophisticated and may have no idea what a SOL means or that it even exists. Therefore, in order to give further protection to the retail buyer, some courts have interpreted the SOL to start at the time of discovery; a concept that is used in torts.[11]

The discovery rule first arose in the U.S. as an equitable remedy in the area of medical malpractice.[12] It was applied when a foreign object was left in a patient who did not discover the mistake until after the SOL had run.[13] It is appropriate "whenever equity and justice have seemed to call for its application."[14] The discovery rule recognizes that a person kept ignorant of the location of his artwork should not be barred from asserting a claim at a later date.[15]

Apart from the SOL problem, the buyer has to prove either negligence or fraud. An action for outright fraud or negligence is more commonly sounded in torts. In order to sue for fraud, the buyer has the difficult burden of proving that the dealer knowingly and maliciously sold a fake and that the buyer reasonably relied on the misrepresentation to his own detriment.[16] A dealer could easily defend himself by claiming that he did not know that the artwork was a fake, that in his opinion it was genuine, and therefore he does not have the scienter necessary to prove fraud. Reputable dealers and experts frequently disagree, and well-executed copies can fool even the most qualified. For example, in May 2000, both Christie's and Sotheby's concurrently listed in their catalogues the same Gauguin painting for sale.[17] The one at Christie's turned out to be the fake.[18]

The burden of proof to establish negligence is less difficult than the burden for proving fraud. The buyer would have to show that the dealer did not exercise reasonable care or competence in determining legitimacy.[19] Again, a dealer could defend himself against a negligence claim by saying that in his expert opinion, the piece was legitimate.[20] Other experts would have to testify as to the reasonableness of the dealer's opinion while the fact-finders would make the final determination.

Even if the cause of action is either fraud or negligence, if the buyer is considered knowledgeable, the seller-dealer could defend his position by claiming that the buyer is equally liable since he should have conducted due diligence and researched the artwork before the purchase was completed.

If the buyer could prove fraud or negligence, his complaint may not be heard in tort, as the courts are divided as to whether or not they will hear a case that only involves economic and not personal loss.[21] Tort law almost exclusively applies to personal injury cases and "there is no recovery in tort if there is no personal [economic] loss."[22] This means that the unfavorable UCC SOL of four years would have to be applied and there can be no claim for negligence.

Salvador Dali is an artist whose works are frequently associated with art fraud. It is said that he purposely tried to confuse the market by signing blank sheets of lithograph papers, which were later drawn upon by other artists in his style and then passed off as original pieces.[23] When brought to his attention, the only art that he said was a fake was "a picture for which he had not been paid."[24] The drawings that were not done by him, even though they bear his signature, are not considered authentic. As a final, surreal joke on the art world, Dali changed his signature several times over the years, thereby making his work even more difficult to authenticate by the art community.[25] Obviously, it is extremely difficult to distinguish the fakes from the real pieces. Before Christie's accepts a consignment, it requires a certificate of authenticity from Pierre Descharnes, the world's leading expert on Dali.[26] Mr. Descharnes, previously a postal worker with no art history background, became a close friend and personal secretary to Dali. Eventually he became the leading expert by publishing Dali's catalogue reasonee.[27]

A good example of a case of fraud that involved fake prints attributed to Dali occurred in 1981. A retail buyer, Balog, while on vacation in Hawaii, purchased several Dali lithographs from Central Art Gallery, a nationwide chain of galleries selling Dali prints.[28] The gallery provided its own personal certificate of authenticity with each print. Balog did not realize that he owned fakes until 1988; well after the four-year SOL had passed.[29] Two world-renowned Dali experts (including Mr. Descharnes) agreed and testified that the art works were fakes. In addition to the defense of SOL, Central Art Gallery stood by its personal opinion of authenticity and tried to discredit the credentials of the plaintiff's experts because they did not have any formal art history education.[30] In the interest of justice, the court began the SOL at the time of discovery in 1988, and applied UCC § 2-313, which protects purchasers of counterfeit artworks by means of an express warranty.[31]

The court made its decision based on the fact that there was a "basic inequality of knowledge, expertise or economic power" between the two parties.[32] Since there was an uninformed retail buyer, the dealer was held liable for the work of art and was required to reimburse the buyer the full purchase price, no matter how many years after the original sale.[33] This is a kind of tort remedy in which the buyer is made whole. The normal contract remedy of expectancy was not utilized since the buyer did not receive the full market value of the work of art, had it been real, or the accrued interest, had the money been put in a bank. This author believes that the court should examine the dealer's culpability in deciding the damages. If there is evidence of fraud or negligence, then the buyer should be entitled to expectancy damages or accrued interest.

In another case involving fraud,[34] the court took the direct opposite position and ruled against the plaintiff when the SOL had run. This case involved the sale of a painting attributed to the famous artist John Singer Sargent by the Spanierman Gallery (a well-known Manhattan gallery) to another art dealer named Rosen.[35] The sale took place in 1968, but Spanierman, for insurance purposes, continued to send appraisals of the painting to the buyer. It was not until 1986 that the painting was disclosed to be a fake and a suit was brought for both common law fraud (a tort) and for breach of contract.[36] The gallery stood by the fact that it sold the painting believing that it was authentic, did not commit fraud, and it was protected by the SOL of four years.[37] The plaintiff argued that the warranty should "extend to the future when the nature of the product implies performance over an extended period of time."[38] The court found no evidence of fraud and held against the plaintiff with regard to the SOL.[39] The court believed that since the plaintiff was a dealer, it should have done its homework within the four-year SOL and should be held equally responsible to determine if a work of art is legitimate.[40] Although the Rosens were GFPs, they lost the case.[41] The one factor that distinguishes this case from the *Balog* case, is that in this instance, the plaintiff was another art dealer.

There is another clear avenue of redress that the courts have not addressed, which is discussed in the *Restatement (Second) of Contracts*; i.e., the concept of contract nullity based on a mistake. "Where a mistake of both parties at the time of the contract was made as to a basic assumption on which the contract was made has a material effect on the agreed exchange of performances, the contract is voidable by the adversely affected party. . . ." [42] If the artwork is misappropriated, the purchaser could make the simple claim that the contract is void because of a mistake.[43] The classic case goes back to 1887 and involves a cow that was thought to be barren but instead was fertile and worth ten times the price paid.[44] The court ruled the contract voidable because "the mistake . . . went to the nature of the thing. A barren cow is substantially different . . . as between an ox and a cow. . . ."[45] Using the same logic, the dealer should be required to take back the work and refund the money regardless of the SOL, which does not apply to a contract that is null and void.[46] Although the UCC does not use the term "mistake," a similar concept can be found in section 2-313, in which the seller makes an express warranty that the artwork is as described and if not, the warranty is breached.

The concept of mistake was applied to a sale in England against the auction house Christie's.[47] A painting that was attributed to Egon Schiele, a well-known Austrian expressionist, was sold to a retail buyer. At the time of the sale, Christie's had only limited knowledge of the facts in support of the attribution yet it catalogued the work as if the knowledge was sufficient. The work turned out to be a forgery. The English courts applied the concept of mistake to completely void the sale.[48] In this country this defense has rarely been used. The U.S. court stated that "post-sale fluctuations in generally accepted attributions do not necessarily establish that there was a mutual mistake in fact at the time of sale."[49] The author disagrees with the court's decision and believes that a misattribution should be considered a mistake. Contract nullity should be made available especially to the retail buyer who depends on the superior knowledge of the mistaken commercial dealer.

As exemplified in the Christie's case, misattribution suits have been brought against the large art auction houses. They are usually based on a breach of express and implied warranty.[50] The auction houses try to limit their vulnerability by using two types of disclaimers in their printed catalogues.[51] The first is by using the words "AS IS"[52] Although "the laws of contracts are generally hostile to [this] disclaimer,"[53] UCC § 2-316 does provide for the use of such language and the courts recognize it widely.[54] The second technique, which is also permitted under the UCC, is to use affirmations in the catalog that the artwork as described is "merely the seller's opinion or commendation of the goods."[55]

The tendency for courts to uphold a published disclaimer of authenticity is illustrated in *Weisz v. Parke-Bernet Galleries*.[56] The plaintiff purchased two Raoul Dufy oil paintings, which turned out to be forgeries.[57] Parke-Bernet refused to return the client's money based on the disclaimers in the catalogue.[58] The trial court concluded that the disclaimers were ineffective because the average customer would not understand that he was not being guaranteed an authentic work of art.[59] However, the appellate court reversed and found the disclaimer to be completely enforceable.[60]

Due to the unfairness to the buyer, the New York legislature passed the New York Arts & Cultural Affairs Law, section 13.01 of which forbids warranty disclaimers in auction house catalogs that try to avoid liability for counterfeits. Several other states, including Florida, Iowa and Michigan, have passed similar legislation to protect the buyer, while other states continue to enforce these unfair disclaimers.

Since the standard methods of protection against fraud are usually inadequate, especially for the retail customer, there needs to be another method of ensuring proper protection. This author suggests that an individual purchasing a valuable work of art should be treated the same way as the buyer of a piece of real estate. Since both purchases usually involve large sums of money, in order to protect the buyer, a transfer of proper title is necessary. The safest route to obtaining good title is for the buyer to perform a full title search, which can best be accomplished through a title search company. After the search is performed, title insurance should be made available just as it is in the real estate market.

An alternative approach would involve holding a dealer strictly liable for any misappropriations based on the degree of culpability of the seller. When there is negligence or fraud, the buyer should receive the fair market value of the artwork as if it had been authentic. Otherwise he receives the return of his original investment. The author also believes that there should be a universal rule with respect to the SOL, which should begin at the time of discovery. Finally, the good-faith buyer should be able to apply the concept of mistake to permit nullification of the contract. (There is a further discussion of remedies later in this article).

The Issue of Art Theft

Art theft has existed since the beginning of time. Unlike most types of personal property, art is easily hidden, may last for centuries and appreciates in value. Recently, art theft has been estimated to be increasing at a rate of over 10 percent each year,[61] and as mentioned earlier, the trafficking of stolen artwork is second only to drug smuggling in terms of the amount of money that is involved.[62] Some estimate this figure to be over $5 billion per year, of which only two percent is ever recovered.[63]According to the International Association of Art Security, there has been an "explosion in art thefts."[64] There is an international passion for acquiring potentially valuable artwork, and buyers rarely probe the origins of desirable pieces.[65] Thieves frequently smuggle and trade stolen art through organized rings of brokers and middlemen,[66] and the smuggled pieces eventually filter into otherwise legitimate markets.[67]

In the past, paintings and other works of art served mainly as status symbols. Now they are also seen as an investment and merchandise to exchange for drugs or arms.[68] The air of legitimacy surrounding the world of fine art contributes to its rising popularity among mobsters and drug dealers. According to the DEA, drug dealers view art as a way to purchase legitimacy.[69]

The issue of theft is even more complicated than fraud, but just like fraud, it frequently becomes a multi-jurisdictional issue, at times involving different states and nations. The question that the court is asked to resolve is who has the more legitimate title between two innocent parties, the original owner or the GFP. With such juxtaposition it is "impossible for the law to mete out exact justice."[70] At common law, a thief's title is void. The thief cannot give a buyer, even a GFP, good title.[71] Over the past century, the SOL periods have carved out exceptions to this rule. Unfortunately, the present rules vary in different states and countries and has remained mired in "horse and buggy law."[72] The adopted rule seems to favor the original owner in the United States, while the laws favor the GFP in many areas of Europe.[73] However, there is no hard-and-fast rule on either continent. In this country, each state has its own policy, which range from those that reward the GFP with title immediately upon purchase (if voluntarily dispossessed),[74] to those that will virtually always result in the owner's retention of title.[75]

The problem of theft includes fraud, since somewhere in the chain of events the stolen art is fraudulently transferred or sold. A possible scenario involves a thief who claims ownership and then sells the artwork to a very willing buyer who could be a dishonest and overzealous dealer. The crooked dealer feigns ignorance in order to obtain a terrific piece of art that he can buy for a fraction of the fair market value and knows he could easily sell to a client. He is willing to take his chances in order to make a killing. He is not a good-faith buyer and is never considered to have proper title. Subsequently, when the dealer tries to sell or transfer the artwork, he commits another fraud by leaving out information or creating a provenance that he knows is illegitimate. Unfortunately, the unsuspecting new owner, or what the court designates as a GFP, may or may not be protected depending on the rules of that jurisdiction.

Another possible scenario involves the corrupt collector who knows he is buying art with questionable provenance but does not care, as long as he is getting a discounted price and can add the piece to his collection. This art usually stays underground and may never resurface. If this type of collector falls on hard times and wants to cash in he will try to find a corrupt dealer who fits into the first scenario. Both of these individuals are criminals and should be prosecuted to the full extent of the law.

Upon discovery, the original owner usually brings a cause of action against the buyer for either conversion or replevin.[76] Since there is no separate law that distinguishes artwork from other property, the standard SOL begins at the time of the theft and will run against the original owner's right to sue rather quickly.[77] This policy is extremely detrimental to the original owner, overly protective of the thief and promotes art theft. After all, sometimes the original owner is not aware of the theft until many years later, or more frequently, has no idea how to find the thief.[78] The factors of fairness and unjust enrichment come into play.

Courts in several states, including New Jersey, have found ways to expand the plaintiff's rights by employing judicially created doctrines in order to achieve equitable results to prevent unjust enrichment.[79] The New Jersey Supreme Court applied the discovery/due diligence rule in which the SOL begins at the time the owner discovers or should have discovered his loss.[80] If the original owner continues his investigation (due diligence), he is given the opportunity to extend the SOL indefinitely or until he finds out who has possession of his artwork. However, since there are no objective standards by which to determine due diligence the facts are frequently left to the fact-finders to determine on a case-by-case basis.[81]

In some states that use the discovery rule, due diligence may not be required if evidence reveals that there has been fraudulent concealment by the buyer.[82] Under this doctrine, a defendant who has been deceitful or committed fraud cannot take advantage of his wrongdoing by raising the SOL as a defense.[83] This policy provides better protection to the original owner against a buyer who has done something affirmatively to prevent discovery of the claim.

The seminal art theft case in which the court discusses the rules of SOL, due diligence, discovery and adverse possession involves three paintings that were stolen from the studio of the world-famous artist Georgia O'Keeffe.[84] Ms. O'Keeffe claimed that three paintings were taken from her gallery in New York in 1946, but she did not report the theft at that time.[85] She finally reported the theft in 1972 and had the paintings listed as stolen in the Art Dealers Registry, which maintains a registry of stolen art. In March of 1976, Ms. O'Keeffe learned that the paintings were being shown in the Barry Snyder Gallery, in New Jersey.[86] She demanded their return but was refused.[87] Mr. Snyder claimed that he purchased the paintings in good faith from the New York dealer Ulrich Frank, who had claimed that the paintings were given to him as a gift from his father, who passed away in 1965.[88] Ms. O'Keeffe then brought a suit for return of the paintings in New Jersey where the paintings were located.[89]

The trial court granted summary judgment for the defendant based on the SOL, which it held commenced at the time of the theft, and had long since expired.[90] The intermediate appellate court (Superior Court) reversed the lower court based on the doctrine of adverse possession, which it said could not be satisfied by Snyder.[91] The court held that the defense of expiration of the SOL and adverse possession were identical and not proven.[92] The Superior Court also stated that the almost total lack of due diligence by O'Keeffe was "besides the point" and blamed the defendant for purchasing the paintings without provenance.[93]

The case was brought to the Supreme Court of New Jersey, which held that the buyer would have difficulty defending his claim based on the doctrine of adverse possession.[94] The court found that the requirements for adverse possession (which include hostile, actual, visible, exclusive and continuous possession) would impose a heavy burden on the retail buyer who usually displays that artwork in the privacy of his house.[95] It would be almost impossible for the buyer to make a claim based on these requirements.[96] In a 1996 case in California, the court stated with regard to this doctrine that the "issue does not appear to be settled."[97] As this issue is unresolved, adverse possession is not often raised as a defense.

With regard to the SOL, the Supreme Court reversed the Superior Court, applied the discovery/due diligence rule, and remanded the case back to the trial court to decide when the cause of action accrued.[98] This rule avoids the results of a mechanical application of the SOL and shifts the burden of proof from the possessor to the owner to prove "whether the owner has acted with due diligence in pursuing his personal chattel," and, if so, the "owner may prevent the SOL from running."[99] The Supreme Court was concerned more about the lack of due diligence than whether the paintings were acquired under adverse possession.[100] Based on the facts, O'Keeffe did not act diligently and probably would have lost her claim. However, the case never returned to the trial court because the parties decided to settle whereby they would each own one of the paintings and share joint ownership of the third (the King Solomon solution).[101] If the case was handled in New York, where the demand/refusal rule applies, the SOL would have begun in 1976, and O'Keeffe would have certainly won all of her paintings back.

A good example of a case in which the court applied the discovery/due diligence rule in favor of the defendant can be found in *DeWeerth v. Baldinger*.[102] The plaintiff was a German citizen who owned a Monet painting which was stolen during World War II and discovered by the owner in 1981 when it was displayed in a private art gallery.[103] DeWeerth ceased any efforts to locate the painting after the initial minimal paperwork required to report a theft. Because the owner failed to publicize the theft or use any prevailing mechanism for recovery of the art, the court found lack of due diligence.[104] The court demanded that the owner never give up the search.[105] However, the court failed to offer guidelines for how much diligence would suffice, saying that diligence "depends upon the circumstances of the case."[106]

Several commentators believe that due diligence should be proven by both parties, not just the plaintiff.[107] The courts should require a reciprocal duty of the buyer to ensure that he is not purchasing a stolen work of art. This could be accomplished by compelling the buyer to investigate the origins of the purchase.[108] The court must also have suitable guidelines for determining a defendant's GFP's status. The defendant should have the burden of proving an effort made to establish that the purchase was legitimate. The plaintiff could rebut by showing that the seller acted in some manner to put the defendant on notice.[109] The defendant in the DeWeerth case would not be able to pass this test.

In contrast to the due diligence rule, New York applies a standard referred to as the demand/refusal rule, in which the SOL begins only after the possessor has refused the demand by the original owner that the piece be returned.[110] The courts believed that any less protection of the owner would "encourage illicit trafficking in stolen art."[111] The law was originally crafted over a century ago to protect the innocent purchaser from being considered a wrongdoer until he was given an opportunity to make amends and return the property.[112] Until a demand was made, the GFP had done nothing wrong.

As applied, however, this doctrine is detrimental to the good-faith buyer since it does not apply any SOL, and rewards the non-diligent owner who can make a claim at any time. Opponents of the rule suggest that it even punishes the GFP worse than the thief or a bad-faith purchaser, in two different ways.[113] First, not only is he required to return the artwork, but also the damages against the GFP are measured by the current value of the art (and not the value at the time of the theft).[114] Secondly, there is no SOL applied until a demand is made by the owner, while the SOL against the thief is limited and begins at the time of the theft.[115] It is believed by the authors of one article that this rule was very unfair because it does not permit any repose for the GFP, and it "will increase the litigation of stale claims that could not be brought in any other state and is a disincentive for art dealers to be active in the New York market."[116] The rule "unfairly over-protects the non-diligent owner and fails to provide any protection for the GFP."[117]

The application of the demand/refusal rule, which this author believes exemplifies the judicial failure to balance the rights of innocent parties, is best found in the *Guggenheim v. Lubell* case.[118] Sometime after April 1965, an employee stole a Chagall gouache from the museum.[119] The museum took no steps to report the theft, since it did not even know that the painting was stolen until an inventory was taken in 1967, and it finally de-accessed the gouache in 1974.[120] In 1968, the Lubells purchased the painting for $17,000 from a reputable gallery that supplied more than adequate proof of authenticity, but did not provide information specifying where the dealer obtained the artwork.[121] Before the purchase, the Lubells, who were the quintessential GFPs, carefully researched the provenance of the painting, including speaking directly with the artist.[122] They also publicly displayed the piece on several occasions.[123] The museum fortuitously learned of the painting's location almost 20 years later in 1985, and proceeded to demand its return.[124] The Lubells refused and were subsequently sued for the return of the painting or the $200,000 fair market value.[125]

The trial court applied the discovery/due diligence rule and granted a summary judgment for the Lubells based on the expiration of the SOL and the failure of the museum to practice reasonable due diligence.[126] The appellate court reversed the lower court and applied the demand/refusal, rule in which there was no due diligence required of the original owner.[127] Subsequently, the Court of Appeals affirmed the appellate court and insisted that the gouache be returned to the museum.[128] The highest court found "it plain that the relative possessory rights of the parties cannot depend upon the mere lapse of time, no matter how long."[129] As stated *supra*, the law actually penalizes the GFP in favor of the non-diligent owner to a greater degree than if it was the actual thief. According to the criminal law, a thief would have to return the piece or pay the original value of $17,000 if caught within a three-year SOL, while the purchaser was being asked to pay the present value and was faced with an indefinite SOL.

Aside from the SOL issue, the Lubells argued that the museum did not even prove that the painting was stolen and that it may have been disposed of in a sale, which would make their title superior.[130] The case settled confidentially on the eve of the trial. It is purported that the museum received over $200,000, divided between the Lubell and two art galleries in exchange for the Lubells maintaining possession.[131] It is not known how much money the Lubells actually contributed to the settlement.[132]

According to the opinion of one commentator, "nothing in the [legal] text, precedent, policy, or logic leads to the unprecedented and inflexible rule articulated in *Guggenheim*."[133] Proponents defend the doctrine and feel it is necessary to over-protect the owner, especially in New York, which is considered the art capitol of the world. The New York court cited Governor Cuomo's fears that creating a rule that was favorable to buyers would make New York a haven for stolen art.[134]

A recent case that depicts the multi-jurisdictional chaos that occurs in art theft involves two oil paintings by Egon Schiele that were lent to the Museum of Modern Art (MoMA) for an exhibition by the Leopold foundation of Vienna, Austria.[135] At the end of the exhibition in January 1998, two Jewish families separately declared ownership of one of the two paintings and claimed that it had been stolen from their families during the Nazi occupation of Austria during World War II.[136] One family claimed to be heir to a Viennese art dealer whose collection was taken from him and "aryanized" during the German occupation.[137] The other family claimed that its members were heirs to a prominent collector whose entire collection was stolen at the time he was arrested and sent to a concentration camp, where he died.[138]

The New York District Attorney issued a subpoena duces tecum barring transfer of the two paintings pending a criminal investigation.[139] The Austrian government protested the seizure and commented, "it was a heavy blow to the international exchange of art."[140] The director of MoMA was quoted in the *New York Times* as saying, "museums and the public could be severely damaged as a consequence. . . . [No one] will lend to institutions in New York . . . and all the good shows will go to [other cities]."[141] On the other side, UNESCO lauded the action and stated that, "a contract between two parties cannot overtake a complaint of theft.[142]

The lower court granted MoMA's motion to quash the subpoena, citing New York's Art and Cultural Affairs Law, which states that no seizure shall be served on any work of art that is on exhibition at a museum.[143] The appellate court reversed this decision, based on the technicality that this law does not apply to a subpoena in a criminal investigation.[144] The Court of Appeals reversed the appellate court's reading of the Arts and Cultural Affairs Law and held that the subpoena was illegal since it "interfered with the Leopold Foundation's possessory interest."[145] MoMA claimed that this was a big victory, and that New York will "continue as the cultural center of the art world."[146]

This victory was short-lived, however, because that night, immediately after the appeals court decision, the United States Attorney for the Southern District of New York presented another seizure warrant. This time it was for only one painting, *Portrait of Wally*.[147]

To further confuse matters, it turns out that neither family had a legitimate claim, since they were not actual heirs to the property.[148] As to why the New York District Attorney was not aware of these facts before creating an upheaval in the entire art world is anyone's guess. Presently, the case is pending and the painting is still in America. The argument against the New York demand/refusal rule is well exemplified by this case.

Under American law, the courts also make a distinction between the owner whose artwork was voluntarily dispossessed and that which was involuntarily dispossessed.[149] The former occurs when an owner loans the artwork to a museum for display or gives it to a gallery to sell. When art is voluntarily dispossessed and then stolen, the courts usually recognize the GFP as having proper title over the original owner.[150] The court feels that in these cases the owners have taken the responsibility of entrusting the art to agents or consignors.[151] If the art is then stolen from the agent, the owner has to bear the responsibility, despite the fact that it is not his fault.[152] This policy can be found in UCC § 2-403, which states that the owner, who entrusts possession of goods to a merchant, gives the merchant the power to transfer all rights to a buyer.[153] Even if the agent is lacking in authority to make the sale, it does not affect the result as long as the buyer is without knowledge that he is violating the ownership rights. The courts hold that the cause of action by the original owner would not accrue against the good-faith buyer but instead it would be against the agent.[154] However, if the buyer were an art dealer, he would be held to a heightened standard as compared to the ordinary retail purchaser based on UCC § 2-103, which requires that the merchant must deal honestly and in good faith. However, the much more common scenario is the involuntary dispossession of the art, in which case the original owner's claim is directly against the buyer. As stated, the discovery/due diligence rule should apply here to protect the original owner even if there is a GFP.

The Author's Solutions

Title Search and Title Insurance

The retail buyer of a piece of art should be afforded the option to obtain a title search and then a title insurance policy just as if he were buying a house. When purchasing a piece of real estate it is standard practice for a title search company to research the records and determine if there is good title. A diligent search is made to make sure that the real estate has no encumbrances or liens. Typically, valuable artwork comes with various papers that document its provenance. However, as noted in the cases involving the Salvador Dali fakes and the Chagall theft, this may not suffice. Both transactions were fraudulent, although there appeared to be sufficient documentation. A title search and insurance would have provided complete protection. For instance, had a title search been performed before Balog purchased his misappropriated Dali, he would have either 1) been informed that the piece was not authentic (assuming Descharnes was contacted to verify authenticity) or 2) been protected against monetary loss by the title insurance company. With regard to the Chagall theft, the Lubells could have purchased insurance, which in essence would spread the cost of loss to all buyers.[155] The cost would be proportional to the size of the cloud around title, which would encourage buying only from reputable dealers.[156]

There are several possible reasons as to why these options are not presently available. Only recently has the art theft and fraud problem become so prevalent. It is merely in the past 30 years that the number of retail clients has increased so dramatically because of the increasing size of a large, well-educated, art-appreciating and purchasing middle class. In addition, the art market was always considered to be the provenance of a privileged segment of the population that the courts and insurance companies believed did not need protection. Presently however, there is need for such protection. In the past, insurance underwriters did not have the knowledge or expertise in a market that was "shrouded in mystery." This aura no longer exists. Finally, title insurance may not have been available because of the lack of an international art theft database, which is only a recent phenomenon.[157]

Centralized International Art Registry

The Internet can be used to verify the authenticity of artwork. The existence of an art theft registry will enable insurers to assess risk and thus offer inexpensive title insurance.[158] The growth of computerized stolen art registries makes it easier for the victim to register a stolen piece of art and for the GFP to determine whether or not his purchase is registered. There is a great deal of confusion for both law enforcement officials and art owners, due to the numerous and fragmented databases that currently exist. There are over 200 websites that list various forms of stolen art. For instance, the FBI National Stolen Arts File has been described as being in shambles.[159] The low recovery figures can be blamed in part on the lack of a systematic cooperation.[160] Commentators and courts have urged the art community to establish a centralized database.[161] This note recommends either an amalgamation of all art registries into one or the formation of a new association that links the ones that already exist.

Victims of art theft frequently do not report their losses to law enforcement officials and registries of stolen art.[162] Their motives are varied and include the fear of exposure, the belief that the art would be forced underground, and fear of taxes.[163] First, owners justifiably fear that disclosure of the theft would expose their vulnerabilities and endanger the remainder of their collections.[164] Second, some owners fear that by reporting the thefts, they would force the art underground never to appear in the mainstream market. In fact, the opposite is true.[165] By reporting thefts, owners put prospective purchasers on notice that artworks are stolen.[166] Referring to the Gardner Museum heist, "no buyer could pretend to be an innocent purchaser of a Vermeer or a Rembrandt."[167] The third reason victims do not report their losses is fear of the tax collector. If the stolen art were recovered, they would be required to pay sales tax, inheritance tax (if the art becomes part of an estate), or capitol gains taxes (if the owner resells).[168] Clearly these are improper reasons not to report a theft. This author believes that in order for the owner to satisfy the due diligence requirements, he must be made to report the theft to law enforcement officials and to the centralized art theft registry. Also, the GFP should be required to check the database in order to prove his own diligence.

Presently, the average retail buyer might find a search prohibitive. Only a title search company would have the resources needed to make a thorough search and assure the buyer that he is obtaining good title against fraudulent or stolen art. Title insurance would further protect this title. Title search and insurance should be made available to protect both the retail and commercial buyer.

At a later date, if an artwork is found to be stolen or fraudulent, the buyer would be fully protected, and depending on the policy, he would receive his original investment back or the fair market value of the artwork. Of course the insurance company could then collect from the original dealer for a return of the money and consider filing criminal charges in cases of fraud. The downside to this system would be the small increase in transaction costs (to which most buyers will probably not object).

In addition, the courts make a distinction between voluntary dispossession of ownership as opposed to involuntary dispossession. The owner in the former category who lends a piece to a museum or consigns it to a gallery should bear some responsibility. If the artwork is stolen, the owner could file suit against the third party (museum or gallery) who is acting as his agent and not against the good-faith retail purchaser. The agent most likely has art theft insurance and therefore would be covered for the loss. This policy helps protect and gives repose to the good-faith buyer.

Legislate for Uniform Standards as Applied to Art Fraud

The issue as to who bears the loss of art fraud could be resolved by applying a national uniform standard which consists of 1) strict liability against the seller/dealer, 2) shared liability between two dealers and 3) expansion of the concept of mistake in order to void a contract.

Strict liability is derived from tort-based notions of best-cost avoider and enterprise liability, and may be particularly suited for the art world's misattribution problem.[169]As one author explains, there are three underlying policies that favor strict liability. They include: 1) The seller is in the best position to pay damages (insurance could cover the damages), 2) strict liability encourages accident prevention; and 3) the requirement in proving fault is overly burdensome and expensive.[170] With regard to the third, litigation costs are usually beyond the means of the individual collector. Holding dealers accountable frees the novice collector from such an ominous burden in exchange for a slight increase in price. This model is adapted from the European system, under which there is a self-imposed risk allocation regime.[171] The imposition of strict standards ensures consumers of a virtual guarantee as to the authenticity of their purchases. A policy of strict liability would benefit both the buyer and seller. The purchaser would be more willing to buy a piece of art with the security that his investment is protected. The dealer would benefit by the increase in business that would ultimately result when a buyer feels secure, and the dealer can always issue a disclaimer if he is not completely sure of the provenance. It would then be up to the buyer to accept or reject the disclaimer.

In the application of strict liability, it is necessary to differentiate the retail buyer from the commercial one. If the buyer is retail, as it is assumed that he had limited knowledge and resources and depended on the superior expertise of the dealer to make the purchase, therefore strict liability is applied. The extent of the damages depends on the culpability of the seller. For instance, if it can be proven that the seller/dealer had knowledge and intended to defraud the buyer, or was found to be negligent in that he should have reasonably known that the piece was a fake, then he should be held liable to pay the buyer the fair market value of the piece. If fraud is proven, then the dealer should also be brought up on criminal charges. The third scenario would be if the dealer were totally unaware of the mistake, in which case he should still be held strictly liable, but only responsible to refund the original cost. Note that all three scenarios involve strict liability applied against the dealer in favor of the retail buyer.

If both parties are dealers, it is assumed that they have equal knowledge and expertise in their field. Art merchants should be allowed to avoid liability where they can demonstrate that plaintiffs had equal or superior knowledge with respect to the work sold. If the seller had knowledge of the fake and intended to defraud a buyer/dealer, then he should be held strictly liable, return the full amount paid to the other dealer and be subject to criminal charges. If the seller was negligent or completely unaware of the misappropriation, where the purchaser did not reasonably rely on the representation of the dealer to his detriment, then both the seller and buyer should share the loss by dividing the cost between them. Since they are equally responsible for due diligence, they should share the loss equally.

Lastly, this author recommends expanding the use of the concept of mistake to void a contract. Since 1887 some courts have voided a contract if the basic assumption of the contract is incorrect and there is an adversely affected party.[172] If the seller misattributes a work of art, the buyer is adversely affected and suffers an economic loss. It is only fair, then, to void the contract and return the original price paid to the buyer. Although the UCC does not actually use the word "mistake," this concept is incorporated in section 2-313 under "express warranty."

Legislate for a Universal SOL Standard

With regard to both stolen art and art fraud, there needs to be a universal standard to determine when the SOL begins. Presently, the limitation ranges from the time of the theft in some jurisdictions to the time of demand and refusal in others. The fairest solution is the incorporation of the discovery/due-diligence standard declared by the Supreme Court of New Jersey in the *O'Keeffe* case. Upon discovery of the theft, a responsibility is placed on the original owner to make every attempt to find the artwork and report the theft to the proper authorities, which include both the police and the stolen art registries. If, after discovery, there is proper due diligence, then the SOL continues on forever. If the owner is not diligent, such as in the *Solomon R. Guggenheim Foundation* case, then the SOL will run out after the four-year period recommended in the UCC. The owner who is not diligent is negligent and should not be given the protection of the court beyond the four years. However, the SOL should not apply to owners who have promptly taken two simple steps to protect their legal titles. The victims who promptly report the thefts to the police and to the computerized database should never be legally barred from recovering their property.[173] Buyers should also be required to check the registry and be held liable if they fail to do so.[174]

Summary

The law regarding fine art theft and fraud is a confusing landscape. This article presents the current "state of the art" of the law. In both areas, several seminal cases were analyzed. The various issues, including SOL, contracts, torts and the original owner versus the GFP's rights were reviewed. Finally, this author offered several constructive suggestions that could be implemented to help make the system more equitable to all involved. Flexibility is a liability when one is trying to generate incentives and deterrence. Instead, we need bright-line rules to assure clarity and uniformity,[175] such as 1) establishing a title search and title insurance company similar to that found in real estate transactions to protect against stolen or misappropriated art; 2) establishing the universal rule of discovery/due-diligence with regard to the commencing of the SOL; 3) enforcing a strict liability policy against the seller/dealer when there is a retail buyer of misappropriated or stolen art; 4) enforcing shared liability when two commercial parties transact; 5) expanding the use of the UCC to void a contract based on mistake; and 6) developing a single national art theft registry that can be easily accessed on the Internet by private individuals and government officials.

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Dr. Manes' interest in the subject of this article arose from a personal experience. He has been an art collector for over 20 years and has purchased paintings from private dealers, galleries and auction houses. Dr. Manes purchased a Salvador Dali watercolor that was subsequently found to be a fake. To his dismay, he was unable to find a legal expert in this area and was given conflicting information as to his rights. This experience sparked his interest in art law, which culminated in the writing of this piece.

Bridgeport Music, Inc. v. Dimension Films LLC: A New Standard as to What Constitutes Actionable Infringement of Sound Recordings in the Sixth Circuit

By Mark E. Avsec

On September 7, 2004, in a case of first impression, the Sixth U.S. Circuit Court of Appeals held that copying any portion of an existing sound recording without authorization, even a snippet as short as two seconds and electronically altered beyond recognition, is actionable copyright infringement. *Bridgeport Music, Inc., et al. v. Dimension Film LLC et al.* (*Bridgeport Music)*[1] concerned the use of a sample from the musical composition and sound recording "Get Off Your A** and Jam" in the rap song "100 Miles and Runnin'," which was included in the soundtrack of the movie *I Got the Hook Up*.

Plaintiff Westbound Records, Inc. (Westbound) claimed infringement of the sound recording "Get Off Your A** and Jam" (featuring George Clinton and Parliament Funkadelic). "Get Off Your A** and Jam" opened with a three-note solo guitar "riff" that lasted for four seconds. According to one of Westbound's experts, the sound recording of "100 Miles and Runnin'" contained a two-second sample from that guitar solo, which was copied, electronically lowered in pitch, and then "looped" and extended to 16 beats. By the district court's estimation, five looped segments, lasting approximately seven seconds each, appeared in "100 Miles and Runnin'" for a total of five times.[2]

Defendant No Limit Films LLC (No Limit Films) moved for summary judgment, arguing 1) that the sample was not protected by copyright law because it was not "original"; and 2) that the sample was legally insubstantial and therefore did not amount to actionable copying under copyright law. The District Court granted No Limit Films' motion for summary judgment on the copyright infringement claim. The court concluded that this was a case of *de minimis* copying, and that if the sampling was examined under either a qualitative/quantitative *de minimis* analysis or under the "fragmented literal similarity" test, the sampling did not "rise to the level of a legally cognizable appropriation."[3]

The Court of Appeals reversed. "The music industry, as well as the courts, are best served if something approximating a bright-line test can be established. Not necessarily a 'one size fits all' test, but one that, at least, adds clarity to what constitutes actionable infringement with regard to the digital sampling of copyrighted sound recordings."[4] The court ruled that, while one could, "without infringing, be able to take three notes by way of sampling from a musical composition," one could not take "three notes by way of sampling from a sound recording."[5] With respect to sound recordings, there is no *de minimis* taking, nor does substantial similarity enter the equation to prove infringement.

A New Standard in Sound Recording Infringement Suits

The trend in sound recording copyright infringement suits had been to require two elements. First, the plaintiff had to show a physical taking from the sound recording at issue. Second, the plaintiff had to show substantial similarity by convincing the jury that an ordinary lay person would recognize the plaintiff's work in the defendant's new recording.[6] As the Second Circuit has held, "if actual copying is established, a plaintiff must then show that the copying amounts to an improper appropriation by demonstrating that substantial similarity to protected material exists between the two works."[7] This is, of course, the bifurcated substantial similarity test routinely employed to find actionable infringement with respect to a musical *composition*.[8]

By not requiring any proof of the second "substantial similarity" element, the Sixth Circuit's landmark decision sharply departs from this precedent. In doing so, *Bridgeport Music* confirms what had been only previously suggested:[9] that the substantial similarity test is inapplicable to sound recordings.

More than 10 years ago, the Southern District of New York sternly condemned the use of unauthorized digital samples in *Grand Upright Music Ltd. v. Warner Bros. Records*.[10] "'Thou shalt not steal.' . . . The conduct of the defendants herein . . . violates not only the Seventh Commandment, but also the copyright laws of this country."[11] This case concerned three words taken from the plaintiff's musical composition in addition to a digital sample taken from a corresponding Gilbert O'Sullivan sound recording "Alone Again (Naturally)," that together were used in the Biz Markie rap recording "Alone Again." The defendants admitted that they used the three words and the digital sample in their recording without a license, which they had sought, but never obtained from the plaintiff. The substantial similarity test was never raised or considered, but almost certainly would have failed to exonerate the defendants.[12]

Apart from attacking the validity of the plaintiff's copyright registration, the defendants' only defense was that others in the rap music industry were doing the same thing.[13] The court not only granted injunctive relief, but also referred the matter for consideration of criminal prosecution.

Six years later in 1997, the Southern District of New York ruled that there was no liability when Run DMC was alleged to have used a drum sample from the 1973 Honey Drippers recording of "Impeach the President"—in part because the substantial similarity test was not satisfied.[14] In that case the court held that even if the plaintiff had been able to meet its burden of proving that it was the owner of a valid copyright in the allegedly infringed work and had substantiated its claim that the defendants copied the work by sampling it, the plaintiff would still be unable to establish the defendants' improper appropriation, because substantial similarity did not exist between the two works (*i.e.*, the average lay listener would not recognize the defendants' alleged copy as having been appropriated from the plaintiff's work).

Judged against this historical backdrop, the Sixth Circuit's holding is revolutionary for affirmatively abandoning the substantial similarity test; however, the "bright-line" ruling in *Bridgeport Music* is a double-edged sword for authors of sound recordings. On the one hand, in the absence of a defense or privilege, now any physical copying of a sound recording, no matter how trivial or how transformative, constitutes a wrongful appropriation. Thus, record companies' catalogues are better protected. On the other hand, since "sampling" is a well-accepted composition and recording technique in many pop music genres (particularly in the rap music genre), record labels themselves are now more vulnerable to charges of direct, contributory, or vicarious copyright infringement. Without the record labels' knowledge, the artists on their rosters may sample without authorization.

Yet there are good policy reasons for the Sixth Circuit's interpretation. First, there is ease of enforcement. The Sixth Circuit panel directs musicians to obtain licenses or not to sample. "We do not see this as stifling creativity in any significant way," the Court of Appeals noted. "It must be remembered that if an artist wants to incorporate a 'riff' from another work in his or her recording, he is free to duplicate the sound of that 'riff' in the studio."[15] Second, musicians can always seek a license to use someone else's work, and the price of such licenses will be regulated by the free market.[16]

Most importantly, the Sixth Circuit's ruling is also supported in the text of the Copyright Act itself. Section 114(b) provides that "[t]he exclusive right of the owner of copyright in a sound recording under clause (2) of section 106 is limited to the right to prepare a derivative work in which the actual sounds fixed in the sound recording are rearranged, remixed, or otherwise altered in sequence or quality."[17] "In other words," Judge Guy concluded in writing for the Sixth Circuit panel, "a sound recording owner has the exclusive right to 'sample' his own recording. We find much to recommend this interpretation."

Under the Copyright Act's compulsory license provision, a mechanical license could easily be obtained to re-record or "cover" a musical composition, for example, Queen's "Bohemian Rhapsody."[18] Moreover, a record producer may simulate and even slavishly imitate Queen's and Roy Thomas Baker's production sound on "Bohemian Rhapsody" with impunity. This hypothetical record producer could approximate the sounds by renting the same instruments that were employed on the Queen recording; experiment with microphone placement until those instruments sound exactly like Queen's; use a Trident recording console to record and mix the instruments just as Roy Thomas Baker and Queen did; layer the guitars and (most obviously) the background vocals just as Queen and Roy Thomas Baker did; and even imitate Mr. Baker's equalizations, compression, reverb, effects choices, and final mix until the overall sonic impression of Queen's "Bohemian Rhapsody" recording are unmistakenly duplicated. (This hypothetical ignores any Lanham Act claims or other state law claims related to false endorsement or unfair competition that might arise.)

However, if instead of tediously re-recording a "soundalike" to the Queen recording in piecemeal fashion, our hypothetical record producer in his bedroom could simply wire the outputs of his CD player into the inputs of his sampler and re-record, or *sample*, two seconds of Freddie Mercury's famous a cappella vocal interlude ("AHHHH!"). Under the Sixth Circuit's ruling, he has crossed the line into the land of protected expression, whether or not anyone could recognize the Queen snippet in the new work.[19]

Like the defendants in *Bridgeport Music*, the record producer could assert that his use of the Queen sound recording did not rise to the level of a legally cognizable appropriation, but in the Sixth Circuit he will lose. The Court of Appeals reasoned that this result is dictated by section 114 of the Copyright Act. It also believed that even when a small part of a sound recording is sampled, the part taken is something of value. The Court reasoned, "[n]o further proof of that is necessary than the fact that the producer of the record or the artist on the record intentionally sampled because it would 1) save costs, or 2) add something to the new recording, or 3) both."[20] The Court of Appeals went on to say: "For the sound recording copyright holder, it is not the 'song' but the sounds that are fixed in the medium of his choice. When those sounds are sampled they are taken directly from that fixed medium. It is a physical taking rather than an intellectual one."[21]

Bridgeport Music Has Not Swallowed the Fair Use Doctrine

There is nothing in the Sixth Circuit's ruling to indicate that its rejection of the *de minimis* defense means a rejection or reduction of the fair use privilege, notwithstanding early reaction from industry lawyers to the contrary.[22] A future defendant may argue that 1) there is just a small amount of copying involved in relation to the work as a whole, 2) he creatively "transformed" the sample into something completely new by pitch-shifting, equalizing, compressing, and running it through a Leslie speaker, or that 3) the electronically-distorted sample of a screaming James Brown that he sampled and sprinkled liberally in his "Papa Gotta Brand New Polka" sound recording was a parody. In other words, he is free to assert the defense of fair use, notwithstanding the holding in *Bridgeport Music*.

Further, National Public Radio would surely argue that the fair use privilege permits it to incorporate, without obtaining any licenses, clips of various sound recordings in an "All Things Considered" radio program focused on the life and recording career of Ray Charles. Likewise, a documentary film company may argue that the fair use privilege permits it to incorporate, without obtaining licenses, clips of three sound recordings averaging around four seconds each in a documentary film about an aging rock star.

In other words, by announcing a bright-line rule for infringements of sound recordings, the Sixth Circuit's ruling has not expressly subsumed the fair use privilege. After all, section 107 of the Copyright Act expressly provides: "*Notwithstanding the provisions of sections 106 and 106A* [and section 114 expressly relates back to section 106], the fair use of a copyrighted work . . . is not an infringement of copyright."[23] The fair use privilege was simply never discussed in *Bridgeport Music*. This author is unaware of any court that to date has considered whether digital sampling of a sound recording was eligible for a fair use exception to a claim of copyright infringement. Surely that is now just a matter of time.[24]

Bridgeport Music Does Not Radically Depart from Well-Accepted Musical Copyright Infringement Principles

Bridgeport Music does not radically depart from well-accepted musical copyright infringement principles, even with the Sixth Circuit's abandonment of the substantial similarity test as applied to sound recordings. Section 114(b) of the Copyright Act expressly provides that it is permissible to imitate or simulate a sound recording without violating copyright law.

> The exclusive rights of the owner of copyright in a sound recording under clauses (1) and (2) of section 106 do not extend to the making or duplication of another sound recording that consists entirely of an independent fixation of other sounds, even though such sounds imitate or simulate those in the copyrighted sound recording.[25]

More fundamentally, while not addressed in the Sixth Circuit's opinion, arguably imitating or simulating a sound recording is permissible because it is analogous to the copying of an *idea*. The "idea" of Roy Thomas Baker's production for Queen, the "idea" of George Martin's and The Beatles' distinctive sound on the early Beatles recordings (including radical stereo panning), the "idea" of Jimmy Page's chunky E-chord introduction to Led Zeppelin's "Good Times, Bad Times," and the "idea" of John Coltrane's big, sonorous, luscious saxophone tone on "Kind Of Blue" have inspired musical artists to "cop" these sounds. This is proper copying. On the other hand, physically "lifting" another artist's protected work product from a pre-existing sound recording arguably crosses the line of demarcation from idea to expression and is more analogous to the illicit copying of protected *expression*, unless the infringer has engaged in a fair use of the copyrighted work.

Considered in this light, Judge Guy's decision seems entirely consistent with historical musical *composition* copyright infringement jurisprudence in both the Second Circuit[26] and the Ninth Circuit.[27] There is one notable exception: under the Sixth Circuit's ruling there is no role for the "lay listener" in the *sound recording* copyright infringement case.[28] Once copying has been established by the expert in the musical *composition* copyright infringement case, the task of the lay listener (considering what is pleasing to her ears, for whom the music was composed) is to determine "that defendant wrongfully appropriated something which belongs to the plaintiff."[29] The lay listener's job is not to calculate *how much* of the plaintiff's expression was infringed, only to say *that* it was infringed. In sound recording copyright infringement cases in the Sixth Circuit, that job would now be accomplished by a plaintiff's expert, with no need to submit the question of substantial similarity to the jury.

In other words, by opining that a plaintiff's sound recording was physically taken by a defendant, the plaintiff's expert by extension is also opining that there was a wrongful appropriation. As a result, unlike in the musical composition copyright infringement case, the plaintiff's expert in the sound recording copyright infringement case will opine on both infringement of idea and infringement of expression, leaving nothing for a "lay listener" to do. The only issue becomes whether the defendant re-recorded sound from the plaintiff's original recording. Either he did or he did not; a recording expert or mastering engineer can easily tell. An expert cannot as easily tell when a musical composition has been infringed.

This is because there *is* a difference between infringement of a musical composition and infringement of a sound recording. It is very difficult to know when a musical composition has been infringed, or exactly when an idea becomes an expression (except in the most obvious cases). Judge Learned Hand admitted that there is no yardstick that can be used to measure when an imitator, riding the abstract continuum between *idea* and expression, has "gone beyond copying the 'idea'" and has now "borrowed its 'expression.'"[30] As a result, every year too many amateur musical terrorists, armed with their broken dreams, tenuous theories of access, contingency fee lawyers, and hungry "expert" music professors, try to game the system. An innocent, but rational, defendant may settle for $99 if it will cost him $100 to litigate.

There will not likely be many baseless sound recording copyright infringement lawsuits filed as a result of the holding in *Bridgeport Music*. Adopting the lexicon of Judge Hand, a producer, artist or engineer can imitate or simulate a sound recording to his heart's content and still he only copies an "idea." However, the moment he connects a couple of leads from a CD player to a sampler, and without authorization physically records someone else's actual work product, he crosses the Rubicon into the land of borrowed expression. Unlike the musical composition copyright infringement suit, where the distinction between idea and expression is fuzzy, there is no doubt when the permissible copying of a "sound recording" idea becomes the illicit appropriation of "sound recording" expression. It occurs the moment the "record" button is pressed. Sampling is always an intentional, as opposed to an accidental, act. "It is not like the case of a composer who has a melody in his head, perhaps not even realizing that the reason he hears this melody is that it is the work of another which he had heard before," the Court of Appeals concluded in *Bridgeport Music*. "When you sample a sound recording you know you are taking another's work product."[31]

Conclusion

The Sixth Circuit's holding in *Bridgeport Music* is a much-needed clarification to a murky area of the law. However, it is only the first step. To deny a fair use privilege in certain cases would be to eliminate digital sampling as a vehicle for creative expression. "Of all the limitations imposed upon a copyright owner's exclusive rights, the fair use doctrine is probably the most significant."[32] Thus, whether or not the Court's "bright-line" ruling will reduce or actually increase litigation in the area remains to be seen. Not so long ago, the United States Court of Appeals for the Sixth Circuit blazed a substantially similar trail in *Acuff-Rose Music, Inc. v. Campbell*,[33] another rap music case which tested the boundaries of copyright ownership. In that case, the Court of Appeals held that the rap group 2 Live Crew's commercial parody of Roy Orbison's musical composition, "Oh, Pretty Woman," was not a fair use. As we know, the United States Supreme Court reversed. To the extent section 107 of the Copyright Act has now collided with section 114 of the Copyright Act as a result of *Bridgeport Music*, the United States Supreme Court may have to untangle the wreckage.

Endnotes

1. 383 F.3d 390 (6th Cir. 2004), *rev'g* 230 F. Supp. 2d 830 (M.D. Tenn. 2002).
2. *Bridgeport Music, Inc. v. Dimension Films LLC*, 230 F. Supp. 2d 830, 833–39 (M.D. Tenn. 2002).
3. *Id.* at 841. "After listening to the copied segment, the sample, and both songs, the district court found that no reasonable juror, even one familiar with the works of George Clinton, would recognize the source of the sample without having been told of its source. This finding, coupled with findings concerning the quantitatively small amount of copying involved and the lack of qualitative similarity between the works, led the district court to conclude that Westbound could not prevail on its claims for copyright infringement of the sound recording." *Bridgeport Music*, 383 F.3d at 395.
4. *Id.* at 397.
5. *Id.* at 399.
6. To be clear, the *de minimis* analysis is "a derivation of the substantial similarity element when a defendant claims that the literal copying of a small and insignificant portion of the copyrighted work should be allowed." *Bridgeport Music. Id***.** The term *de minimis* also has significance when discussed in the context of a fair use analysis, i.e., when in a particular case it is argued that the use made of a work is a fair use because "the amount and substantiality of the portion [of the allegedly infringing work] used in relation to the copyrighted work as a whole [is so small]." *See* 17 U.S.C. § 107. Finally, the term *de minimis* is undoubtedly derivative of the well-known legal maxim *de minimis non curat [praetor/rex/lex]* (the authority, or king, or law does not care about trifles or trivial things).
7. *Laureyssens v. Idea Group, Inc.*, 964 F.2d 131, 140 (2d Cir. 1992) (cited with approval in *Tuff'N'Rumble Mgmt. v. Profile Records, Inc.*, 42 U.S.P.Q.2d 1398, 1402 (S.D.N.Y. 1997)).
8. *See generally Arnstein v. Porter*, 154 F.2d 464 (2d Cir. 1946); *Selle v. Gibb*, 741 F.2d 896 (7th Cir. 1984); *Smith v. Jackson*, 84 F.3d 1213 (9th Cir. 1996).
9. *See, e.g.*, Jeffrey R. Houle, *Digital Audio Sampling, Copyright Law and the American Music Industry: Piracy or Just a Bad "RAP"?*, 37 Loy. L. Rev. 879, 896 (1992).
10. 780 F. Supp. 182 (S.D.N.Y. 1991).
11. *Id.* at 183 (citing Exodus, Chapter 20: Verse 15).

12. Plaintiff's work was incorporated and could easily be recognized in defendants' work in every chorus or refrain; the two works even essentially shared the same title.

13. 780 F. Supp. at 185, n.2.

14. *See Tuff'N'Rumble Mgmt. v. Profile Records, Inc.*, 42 U.S.P.Q.2d 1398, 1402 (S.D.N.Y. 1997).

15. *Bridgeport Music,* 383 F.3d at 398.

16. *Id*.

17. 17 U.S.C. § 114(b).

18. The compulsory copyright royalty provision for recordings can be found in section 115 of the Copyright Act. It provides that, once a musical composition has been recorded, a copyright owner must license it to anyone else that wants to record it in a "phonorecord" (also defined in the Copyright Act) for a specific payment established by law. The threat of the compulsory license enables record companies to obtain direct licenses from copyright owners of musical compositions at a prevailing statutory rate (and often at even lower rates than the statutory rate).

19. Federal copyright generally does not extend to sound recordings fixed before February 15, 1972. However, there is a possibility that federal copyright protection will extend to a compilation or derivative work of pre-1972 recordings made after 1972. Sound recordings fixed in a "phonorecord" before February 15, 1972 generally are protected by state common law copyright and applicable state laws (such as unfair competition laws). *See* Alexander G. Comis, *Copyright Killed the Internet Star: The Record Industry's Battle to Stop Copyright Infringement Online; A Case Note on* UMG Recordings, Inc. v. MP3.com, Inc. *and the Creation of a Derivative Work by the Digitization of Pre-1972 Sound Recordings*, 31 Sw. U. L. Rev. 753, 766 (2002).

20. *Bridgeport Music,* 383 F.3d at 399.

21. *Id*.

22. *See, e.g.*, Steve Seidenberg, *A Few Notes Play A Wrongful Tune*, ABA Journal & Report (September 2004) (quoting industry attorneys commenting that the Sixth Circuit's ruling "has swept the fair use defense away" or "doesn't leave much room for fair use.").

23. 17 U.S.C. § 107 (emphasis added).

24. *See infra* note 32.

25. 17 U.S.C. § 114(b).

26. *See generally Arnstein v. Porter*, 154 F.2d 464 (2d Cir. 1946).

27. *See generally Sid & Marty Krofft Television Productions, Inc. v. McDonald's Corp.*, 562 F.2d 1157 (9th Cir. 1977). *Krofft* equated its concept of infringing general ideas with *Arnstein's* "copying" element and its concept of infringing the expression of those ideas with *Arnstein's* improper appropriation element. "We believe that the court in *Arnstein* was alluding to the idea-expression dichotomy which we make explicit today." *Id.* at 1165.

28. Expert testimony is permitted to aid the court in deciding whether or not there was any copying, i.e., expert testimony is permitted to help the fact finder decide whether or not two works are probatively similar. "Where plaintiff relies on similarities to prove copying (as distinguished from improper appropriation) paper comparisons and the opinions of experts may aid the court." *Arnstein*, 154 F.2d at 473, n.19. Expert testimony is not permitted to help the fact finder decide whether or not there has been improper copying, i.e., an improper appropriation. "If copying is established, then only does there arise the second issue, that of illicit copying (unlawful appropriation). On that issue . . . the test is the response of the ordinary lay hearer; accordingly, on that issue, 'dissection' and expert testimony are irrelevant." *Id.* at 468.

29. *Id.* at 473.

30. *See Peter Pan Fabrics, Inc. v. Martin Weiner Corp.*, 274 F.2d 487, 489 (2d Cir. 1960).

31. *Bridgeport Music*, 383 F.3d at 399.

32. A. Dean Johnson, *Music Copyrights: The Need For An Appropriate Fair Use Analysis In Digital Sampling Infringement Suits*, 21 Fla. St. U. L. Rev. 135, 142 (1993) (numerous citations omitted). Mr. Johnson presents an excellent discussion of fair use analysis in the context of sound recording copyright infringement suits.

33. 972 F.2d 1429 (6th Cir. 1992), *rev'd*, 510 U.S. 569 (1994).

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The author is grateful to Carl A. Hjort, III and Susan M. Avsec for proofreading this article and for their contributions.

The Not-So-Uniform Athlete Agents Act: Why Current Regulation Efforts Fail to Deter Unscrupulous Conduct

By Jacob F. Lamme

The agent problem is everyone's problem . . . But with everyone working together to provide education and control, a better environment may be achievable.

—Crissy Kaesebier, NCAA News[1]

It's not about how many car deals you can get or Chunky Soup commercials, it's about learning how to be prepared for the future. There are a lot of kids unprepared and a lot of agents who have no business being in this business.

—Tony Agnone, Sports Agent[2]

There is no happy medium for the sports agent industry. Either it is portrayed as one of glamour and prestige,[3] or it is shrouded in accusations of fraud, deceit, and greed. The biggest problem facing the sports agent industry today is the extremely stiff competition. There are simply too many agents and not enough professional or soon-to-be-professional athletes for them to represent. For example, in 2002, the National Football League Players Association ("NFLPA") had 1,196 registered sports agents, with more than 800 of those without a single client.[4] Therefore, fewer than 400 sports agents represent every player in the National Football League.[5] The picture in Major League Baseball is even bleaker; the Major League Baseball Players Association ("MLBPA") currently has only about 300 registered agents with clients and many more without.[6] With athlete salaries at an all-time high, agents are willing to engage in morally suspect and illegal conduct in order to convince athletes—both professional and amateur—to retain their services.

This article briefly chronicles the history of sports agents and illustrates how they rose to such prominence within the world of sports. It also details the unscrupulous behavior of sports agents who lurk in the shadows of collegiate athletics. Finally, it analyzes and criticizes current state and federal efforts to regulate the problematic behavior of sports agents, focusing primarily on the Uniform Athlete Agents Act and the Sports Agent Responsibility and Trust Act as pieces of legislation that do not contemplate effective punishments for violators.

History of the Sports Agent

Contrary to popular belief, the evolution of athlete representation is not a new phenomenon.[7] Athletes have relied on the expertise of other professionals to achieve their financial and professional goals for nearly a century.[8] For instance, in the 1920s, Charles "Cash and Carry" Pyle successfully negotiated a contract and endorsements on behalf of legendary football star Red Grange, thus creating "the genesis of the sports agent industry."[9] Babe Ruth followed the investment advice of a cartoonist named Christy Walsh, who would be considered a "sports agent" by today's standards.[10] Further, in 1966, Hollywood movie producer J. William Hayes performed the role of sports agent in a highly publicized financial battle that placed Sandy Koufax and Don Drysdale—two of baseball's most dominating pitchers of all time—against Los Angeles Dodgers owner Walter O'Malley.[11] Hayes was able to secure lucrative contracts for Koufax and Drysdale, who staged a joint holdout from the Dodgers during spring training and demanded a joint salary renegotiation.[12] Koufax's and Drysdale's use of an agent allowed them to gain the upper hand over the owner and enjoy significant salary increases.[13] However, it was not until the 1970s that the sports agent profession as it is known today became a fixture in the business world of sports.[14]

Today, sports agents perform a wide variety of services for their clients. No longer are they simply contract negotiators. In the 21st century's fast-paced world of sports, it is common for sports agents to, "[i]n addition to negotiating contracts, . . . oversee their clients' money management and investment decisions[,] provid[e] insurance, tax, and estate planning advice, and [solicit] endorsement deals."[15] Further, sports agents must always perform these services in the best interests of their clients.

The rise of the sports agent can be directly attributed to five of the most important elements in today's sporting world.[16] First, the abolition of baseball's "reserve system" allowed players to gain a more favorable position in salary negotiations.[17] Second, the rise in popularity of professional football, basketball, and hockey, along with the advent of each of those sports' rival leagues, led to an array of markets where athletes could sell their services.[18] Third, the players' union in each sport became stronger over the years through collective bargaining and achieved many successes, such as higher salaries.[19] Fourth, the continual increase in players' salaries required them to seek professional tax planning and sound investment advice.[20] Finally, media exposure was able to generate an enormous amount of revenue, in which the players were able to participate through collective bargaining, and created numerous endorsement opportunities for the athletes.[21]

The Shark-Infested Waters of Collegiate Athletics

The National Collegiate Athletic Association ("NCAA"), comprised of over 1,150 colleges and over 300,000 student-athletes,[22] makes up the biggest pool of potential clients for ambitious sports agents.[23] However, the NCAA is extremely determined in its efforts to preserve amateurism in college athletics: "The NCAA, in order to promote amateurism and keep commercialization out of intercollegiate athletics, does not allow student-athletes to be represented by an agent before their eligibility expires."[24] To further this position, it has enacted a "no-agent rule" in its governing regulations, which states:

> An individual shall be ineligible for participation in an intercollegiate sport if he or she ever has agreed (orally or in writing) to be represented by an agent for the purpose of marketing his or her athletics ability or reputation in that sport. Further, an agency contract not specifically limited in writing to a sport or particular sports shall be deemed applicable to all sports, and the individual shall be ineligible to participate in any sport.[25]

Therefore, a student-athlete is prohibited from dealing with sports agents and should avoid them at all costs until he or she is ready to begin a career in professional sports. This, however, is overly idealistic. Unscrupulous sports agents pay no heed to the NCAA's "no-agent rule" because the NCAA lacks any legal power to sanction anyone unaffiliated with it.[26]

The NCAA does, however, have the power to sanction colleges and universities for violations of the "no-agent rule."[27] "The NCAA's governance is based on institutional control . . . [therefore it] may penalize an institution for competing with players later found to be ineligible."[28] The institutional sanctions can, among other things, bar schools from television appearances and post-season play, both of which generate substantial profits for the schools.[29]

Deceptive sports agents utilize a number of shady tactics in order to coddle and woo potential clients while evading the NCAA's "no-agent rule."[30] The most effective of these techniques is the utilization of campus recruiters, commonly called "runners."[31]

> For about $2,000 a month plus expenses, runners of almost every stripe invade college campuses every year. Most are young and easily blend into campus life. The only difference is the corporate card they carry. Their sole purpose? Convince college stars to sign with The Man. A select few runners drop nothing more than their boss'[s] name—and promises of a fat NFL contract. The vast majority compete with cash, hookers, gold, watches, whatever it takes.[32]

Runners can be almost anybody, from a student-athlete's roommate or girlfriend to former collegiate athletes who return to their alma maters with the guise of "helping the team."[33] Marginal sports agents cannot compete legitimately, so they rely on the deceptive use of others in order to approach and sign student-athletes to agency contracts.[34]

Essentially, sports agents are sharks patrolling the shores of collegiate sports with the star student-athletes acting as the chum—there are enough to attract every shark in the business, yet not enough to satisfy everyone. Only the best and most established sports agents can legitimately reach star student-athletes like Syracuse's Carmelo Anthony, Georgia Tech's Nomar Garciaparra, Stanford's Tiger Woods, and Ole Miss's Eli Manning as they are coming out of college and sign them up as clients. This is precisely why greed propels some sports agents to scan the collegiate ranks and push the moral and legal envelopes in their frenzied quests to sign the next Michael Jordan, Wayne Gretzky, John Elway, or Barry Bonds.[35]

Notable Shark Attacks on Amateur Athletes[36]

While there have a number of cases involving sports agents who have defrauded or stolen from their clients and caused them to violate NCAA regulations, nothing has been as egregious and detrimental to the industry as a whole than the incident involving sports agents Norby Walters and Lloyd Bloom.[37] In 1988, the sports agents—who do business as World Sports and Entertainment, Inc. (WSE)—were indicted under RICO and federal mail fraud statutes for racketeering, racketeering conspiracy, extortionate acts, conspiracy to commit mail fraud, mail fraud, and wire fraud.[38]

In order to gain a competitive advantage over other agents, WSE disregarded the NCAA's eligibility rules and signed 58 college football players to representation contracts.[39] Attempting to hide these contracts from the NCAA and preserve the student-athletes' eligibility, WSE post-dated the contracts and locked them away until the players exhausted their eligibility.[40] Further, WSE promised to lie if any university inquired about the contracts.[41] WSE's scheme, however, did not execute as planned:

> Having recruited players willing to fool their universities and the NCAA, [WSE] discovered that they were equally willing to play false. . . . Only 2 of the 58 players fulfilled their end of the

> bargain; the other 56 kept the cars and money, then signed with other agents. They relied on the fact that the contracts were locked away and dated in the future, and that [WSE's] business depended on continued secrecy, so [it] could not very well sue to enforce the promises.[42]

Astonishingly, WSE resorted to threats of physical violence, implementing Mafioso-like techniques in order to enforce the contracts.[43] Eventually, Walters pleaded guilty to mail fraud in exchange for dismissal of the RICO and conspiracy charges.[44] Regardless of the outcome, the WSE case represents the biggest blow that the sports agent industry has ever suffered.

The effects of sports agents' unscrupulous, greedy, and selfish acts are further illustrated in the case involving entrepreneur and sports agent Myron Piggie.[45] Throughout the mid-1990s, Piggie assembled a traveling basketball squad made up of elite amateur high school players, called the Amateur Athletic Union's Children's Mercy Hospital 76ers.[46] Despite its name, the team was anything but amateur. Piggie generated $677,760 of income through this "amateur" basketball scheme and gave the players access to other sports agents, opportunities to obtain sponsorships, and of course, cash as compensation for playing in his league.[47] By providing the players with these services before they entered the NCAA, Piggie was hoping to capitalize on those relationships in the future, when the players turned professional and signed multi-million dollar contracts.

After playing in Piggie's summer league and before starting college in the fall, four student-athletes (Jaron Rush, Corey Maggette, Kareem Rush, and Andre Williams) submitted false and fraudulent statements to universities, which certified that they had never received any payments to play basketball.[48] Based on these statements, UCLA, Duke, Missouri, and OSU offered them scholarships to play collegiate basketball.[49] Piggie's actions were soon discovered, and the NCAA penalized each school for playing ineligible student-athletes by requiring them to forfeit basketball scholarships and Final Four tournament revenue.[50]

Piggie pled guilty to one count of conspiracy to commit mail and wire fraud and one count of failure to file a tax return.[51] The mail and wire fraud charge stems from Piggie's influence on the players to use the U.S. Postal Service to send false statements, in which the players' falsely asserted their eligibility to play basketball in the NCAA.[52] Piggie was eventually sentenced to 37 months in prison and ordered to pay nearly $325,000 in restitution for his role in the scheme to defraud the NCAA.[53]

Regulation of Sports Agents

There are no special requirements for being a sports agent. "All you have to do to be an agent is say you are one."[54] The major sports leagues require sports agents to register and become certified, but the standards are not set extremely high.[55] However, a considerable number of sports agents are also attorneys; therefore, they are governed by state-enacted ethics rules.[56] Yet not all sports agents are attorneys, and even the ones who are do not necessarily follow their governing ethics rules when representing star athletes. Therefore, in response to cases such as *Walters* and *Piggie*, the National Conference of Commissioners on Uniform State Laws ("NCCUSL"),[57] after three years of hearings, testimony, and drafts, accepted the Uniform Athlete Agents Act ("UAAA" or "Act") in 2000 and recommended it for enactment by all the states.[58]

Essentially, the UAAA provides bright-line rules for sports agents to follow instead of the hodgepodge of various state laws that governed them before the UAAA.[59] The Act requires sports agents to register with the states in which they do business,[60] sets forth a required contract form,[61] and provides the student-athlete with a uniform right to cancel the contract within fourteen days.[62] More importantly, the Act prohibits conduct that has been detrimental to the sports agent profession.[63] Under the UAAA, sports agents are prohibited from:

1. Giving materially false or misleading information or promises,
2. Furnishing anything of value to the student-athlete before he or she enters into the contract,
3. Furnishing anything of value to any individual other than the student-athlete,
4. Initiating contact with a student-athlete without first registering,
5. Refusing to permit inspection of required records,
6. Failing to register with each state in which he or she conducts business,
7. Providing materially false or misleading information in a registration application,
8. Predating or postdating an agency contract, and
9. Failing to notify a student-athlete before he or she signs an agency contract that doing so may make him or her ineligible to further participate as a student-athlete in collegiate or amateur sports.[64]

The UAAA adequately addresses the problems surrounding the industry and places sports agents—like the defendants in *Walters* and *Piggie*—on notice that unscrupulous behavior will no longer be tolerated. However, while the Act correctly prohibits such conduct, *it fails to deter by not providing uniform and concrete penalties* for sports agents in violation.[65]

Uniform Failure to Punish

The NCCUSL made it abundantly clear that the only reason it involved itself in the sports agent issue was that it was becoming painstakingly clear that the industry was crying out for uniformity in regulation.[66] In its Prefatory Note to the Act, the NCCUSL explicitly stated, "Conscientious agents operating in more than a single State must have nightmares caused by the lack of uniformity in the existing statutes, the difficulty in compliance and the *severity of penalties* which may be imposed for violations."[67] However, Section 15, which addresses criminal penalties for violations of the Act, not only fails to offer a uniform criminal penalty, it fails to even recommend a criminal penalty.[68] Section 15 is written as follows: "An athlete agent who violates Section 14 is guilty of a [misdemeanor] [felony] and, upon conviction, is punishable by [ ]."[69] In the Comment following Section 15, the NCCUSL completely contradicts its earlier statement in the Prefatory Note when it says:

> The extent of the criminal penalties which may be imposed for violation of the act are left to the States adopting the act because of a wide variation in the criminal penalties provided for by existing acts. *Variations in the criminal penalties which may be imposed would not detract from the otherwise uniform and reciprocal provisions of the act*. Some potential criminal penalty is necessary to discourage those individuals who are willing to engage in improper or illegal conduct because of the size of the monetary stakes in the contemporary professional sports world.[70]

The NCCUSL made a tremendous error by not including, or at least recommending, a uniform criminal punishment to accompany the UAAA. Without providing any guidance to the states regarding the severity of criminal penalty needed to deter the prohibited conduct, the NCCUSL ran the risk of having great disparity in the range of penalties by the states that enact the UAAA. Unfortunately, that disparity exists, and it does not further the goal of attaining uniform state laws that regulate the conduct of sports agents. A law is only as good as the punishment it provides for its violation.

As of September 24, 2004, the UAAA has been passed in 30 states and two territories.[71] One state has active UAAA legislation somewhere in the legislative process,[72] nine states have non-UAAA laws designed to regulate sports agents,[73] and 13 states and one territory lack any law specifically designed to regulate sports agents.[74]

The various criminal penalties for Section 14 violations in each of the 30 states and two territories that have enacted the UAAA are listed in the chart at left. The disparity between the penalties is astonishing. For instance, Florida's penalty calls for up to 15 years in prison, up to a $10,000 fine, or both;[75] while Arizona's penalty only calls for up to six months in prison, up to a $1,000, or both.[76] Therefore, Agent X from South Dakota (a state without any sports agent regulation) could illegally sign Y, a Florida State University basketball player, to a representation contract in violation of Section 14, end up in prison for 15 years and be fined $10,000, but only end up in prison for 6 months and be

Criminal Punishments for Section 14 Violations by State

State	Imprisonment/Fine
Alabama	1 to 10 years and/or up to $5,000
Arizona	up to 6 months and/or up to $1,000
Arkansas	up to 1 year and/or up to $1,000
Delaware	1-5 years and/or $500-$1,000
District of Columbia	up to 6 months and/or up to $10,000
Florida	up to 15 years and/or up to $10,000
Georgia	1-5 years and/or $5,000-$100,000
Idaho	up to 6 months and/or up to $300
Indiana	up to 18 months and/or up to $10,000
Kansas	up to 1 year and/or up to $2,500
Kentucky	1-5 years and/or $1,000-$10,000 *OR* double the commission gained from the offense, whichever is greater
Maryland	up to 1 year and/or up to $10,000
Minnesota	up to $3,000
Mississippi	up to 2 years and/or up to $10,000
Missouri	up to 6 months and/or up to $500
Montana	up to 1 year and/or up to $5,000
Nevada	up to 1 year and/or up to $25,000
New York	up to 1 year and/or up to $1,000
North Carolina	4-6 months and/or a fine at court's discretion
North Dakota	up to 1 year and/or up to $2,000
Oklahoma	up to 1 year and/or up to $500
Pennsylvania	up to $5,000
Rhode Island	up to 1 year and/or up to $500
South Carolina	up to 3 years and/or up to $10,000
Tennessee	1 to 6 years and/or up to $25,000
Texas	up to 1 year and/or up to $2,500
Utah	up to 1 year and/or up to $2,500
Washington	up to 5 years and/or up to $10,000
West Virginia	up to 1 year and/or up to $500
Wisconsin	up to 9 months and/or up to $10,000
Virgin Islands	up to 5 years and/or up to $15,000

fined $1,000 if he illegally signs Z, a student-athlete from the University of Arizona.

Of all the states that have enacted the UAAA, only the Kentucky legislature had a true understanding of what the Act was intended to do; its penalty calls for one to five years in prison and/or a fine of $1,000 to $10,000, *or double the commission gained from the offense*, whichever is greater.[77] Therefore, if Agent X illegally signs a University of Kentucky football player to a post-dated contract in which he secures a $100 million endorsement contract, Agent X's fine would be $6 million.[78] Each state that enacts the UAAA should follow Kentucky's example and make its penalty for violating the Act as harsh as possible in order to hit sports agents where it hurts the most—in the wallet.

In today's sports world economy, no sports agent is looking to stay within the physical borders of a single state. Most sports agents work for large international firms, such as IMG and SFX. They travel constantly in order to sign who they think will be the next Barry Bonds or Andy Roddick, regardless of which state the athlete happens to be in. This alone should dictate that the state penalties for violating the UAAA should arise to a uniform deterrent. For Arizona state law to only fine a sports agent $1,000 for signing a contract from which he will potentially make millions of dollars is ludicrous. Only when sports agents are fined millions of dollars will the point hit home and the unscrupulous conduct cease. Until then, expect to see many more stories about sports agents giving money, cars, and hookers to their biggest pool of potential clients—the student-athletes.

While the states and territories that have enacted or are in the process of enacting the UAAA should be commended for addressing the problem of unscrupulous sports agents plaguing the world of sports, each legislature should reexamine the criminal penalty it chose and determine if its penalties sufficiently deter the type of behavior that the UAAA was designed to prevent.

Federal Efforts to Regulate

While there is some question about whether Congress would have jurisdiction to enact a measure like the UAAA pursuant to its power under the Commerce Clause,[79] the federal government has several other means by which it can regulate the sports agent industry. The mail fraud statute has provided Congress with an extremely powerful weapon to attack virtually any kind of fraud.[80] Through its power to regulate postal activity,[81] Congress can forbid using the mail to execute a fraudulent scheme "whether it can forbid the scheme or not."[82] Further, the wire fraud statute—modeled after the mail fraud statute—provides Congress with another all-encompassing vehicle with which to combat an infinite number of frauds.[83] Therefore, since most (if not all) sports agents use the mails or wires to conduct business, the mail and wire fraud statutes serve as valuable tools in addressing the unscrupulous behavior of sports agents.

Attempting to further focus on and specifically address the egregious behavior that is plaguing the sports agent industry, President George W. Bush signed into law the Sports Agent Responsibility and Trust Act (SPARTA), effective September 24, 2004.[84] SPARTA is very similar to UAAA, and should be viewed as a wider umbrella law to supplement the state enacted legislation.[85] Under SPARTA, sports agents are prohibited from:

1. Directly or indirectly recruiting or soliciting a student athlete into an agency contract, by—
    a. Giving any false or misleading information or making a false promise or representation; or
    b. Providing anything of value to a student athlete or anyone associated with the student athlete before the student athlete enters into an agency contract, including consideration in the form of a loan, or acting in the capacity of a guarantor or co-guarantor for any debt;
2. Entering into an agency contract with a student athlete without providing the student athlete with the disclosure document described in subsection (b); or
3. Predating or postdating an agency contract.[86]

These prohibitions accurately target the egregious behavior, much like the UAAA. While both SPARTA and the UAAA prohibit sports agents from misleading student-athletes, furnishing valuables in consideration for a contract, and predating or postdating a contract, the UAAA prohibits sports agents from conducting business without registering in the states in which they do business.[87]

The major difference between the two statutes is that while the UAAA criminalizes its violations,[88] SPARTA merely establishes a civil cause of action that is enforced by the Federal Trade Commission for exactly the same conduct.[89] This, of course, stems from Congress's initial hesitancy to enact SPARTA pursuant to the Commerce Clause after the *Lopez* decision.[90] "[C]ontract law really is a State jurisdiction, and so with Federal law we don't have the authority to make it null and void. But also, the other—you really want to stop this in the front end."[91] Therefore, Congress's inability to determine whether or not enacting SPARTA is within its jurisdiction could cause problems down the road if an agent ever challenges the Act as beyond the scope of Congress's interstate commerce power.

Conclusion

Sports agents work in a fiercely competitive industry. With the amount of money that today's athletes make by way of lucrative contracts and glamorous endorsements, it is extremely difficult for most sports agents to effectively compete for clients. Unfortunately, a handful of unscrupulous sports agents have painted the profession badly by engaging in morally questionable and illegal behavior. In order to cut corners and stave off competition, sports agents target young, talented student-athletes and offer them various incentives in order to secure agency contracts.

While many states have enacted, or are in the process of enacting, the UAAA, which criminalizes this type of egregious behavior, the criminal penalties for the Act's violations vary drastically and cannot properly deter the problematic behavior. Therefore, with the federal Sports Agent Responsibility and Trust Act (along with the all-encompassing wire and mail fraud statutes) supporting the punishment of these unscrupulous sports agents, the states need to reexamine how they punish Section 14 violations and develop harsher, more uniform criminal punishments for these white-collar criminals.

Endnotes

1. Crissy Kaesebier, *Membership programs tap unique resources for educational efforts*, NCAA News, May 27, 2002, *at* http://www.ncaa.org/news/2002/20020527/active/3911n36.html (last visited Oct. 4, 2004).
2. Mike Preston, *From an agent's seat, dim view of new breed*, Balt. Sun, Dec. 11, 2003, at 1C.
3. *See* Jerry Maguire (Sony Pictures 1996); "Arli$$" (HBO Television 1996-2002); *see also* Kenneth L. Shropshire, Agents of Opportunity: Sports Agents and Corruption in Collegiate Sports 7 (1990) (stating "[f]or many people, the life of a sports agent conjures up visions of a Hollywood lifestyle of fast cars and fancy clothes. . . It is this flashy lifestyle that many agents point to as a prime reason for success in obtaining athlete clients. It is this image, too, that has been largely responsible for the popular negative view of sports agents").
4. *Sports Agent Responsibility and Trust Act: Hearing on H.R. 4701 Before the Subcomm. on Commerce, Trade, and Consumer Prot. of the Comm. on Energy and Commerce*, 107th Cong. 6 (2002) (hereinafter "Hearing I").
5. *See id*.
6. Major League Baseball Players Association website (Bigleaugers.com), Frequently Asked Questions, *at* http://bigleaguers.yahoo.com/mlbpa /faq (last visited Oct. 4, 2004) (instructing sports agents how to register with the Major League Baseball Players Association (hereinafter "MLBPA"). "*After a player on a 40-man roster has designated an agent as his representative*, the agent must apply for certification by the MLBPA. Agents who have been designated by a 40-man roster player and who are not yet certified should call 212-826-0808 for further information." *Id*. (emphasis added). Therefore, the MLBPA allows sports agents to contact and sign its players without first being registered. *See id*.
7. Shropshire, *supra* note 3, at 18.
8. *Id*.
9. *Id*. In 1925, Pyle was able to secure for Grange an unprecedented $3,000 per game from the Chicago Bears and $300,000 for guaranteeing movie rights and endorsing various products, including dolls, candy bars, and caps. *Id*.
10. *See id*.
11. *Id*.; *see also* Roger I. Abrams, Legal Bases: Baseball and the Law 138–39; Eugene Freedman, *Collusion IV?*, *Baseball Primer: Baseball for the Thinking Fan*, Nov. 11, 2003, *at* http://www.baseballthinkfactory.org/files/ main/article/eugene_freedman_2003_11_14_0/ (last visited Oct. 4, 2004).
12. Shropshire, *supra* note 3, at 19 (stating that Hayes signed Koufax and Drysdale to act in a Paramount Pictures movie, which he was able to use as a bargaining chip in the negotiations with the Dodgers); *see also* Abrams, *supra* note 11, at 138–39.
13. *See* Shrophire, *supra* note 3, at 19 (crediting Hayes for negotiating $167,000 for each pitcher for three years, making Koufax and Drysdale the highest paid players in baseball). Interestingly, it was the Koufax-Drysdale holdout that propelled the owners to insist on including an anti-collusion clause in the 1976 collective bargaining agreement between the baseball club owners and the MLBPA). Freedman, *supra* note 11, at 1. Although they did not know it at the time, the owners' demand for anti-collusion protection to prevent the players from sharing in the profits of America's national pastime would come back to haunt them ten years later and eventually prove to be the downfall of the game. *See* Abrams, *supra* note 11, at 139. Beginning in 1985, the owners—led by Milwaukee Brewers owner Bud Selig and Chicago White Sox owner Jerry Reinsdorf—began colluding in order to keep escalating players' salaries in check. *See* Freedman, *supra* note 11, at 2. Five years later, after being dealt three massive blows through arbitration, the owners settled all collusion claims with the MLBPA for $280 million. Abrams, *supra* note 11, at 146.
14. *See* Shropshire, *supra* note 3, at 18–21. Bob Woolf and Marty Blackman are widely recognized as the "modern fathers" of sports agents. *Id*. at 21. Known for his non-confrontational negotiating style, Woolf was able to amass a large array of sports clients after successfully negotiating contracts and endorsement deals for Boston Red Sox pitcher Earl Wilson, who was enjoying extreme popularity after hurling a no-hitter against the California Angels on June 26, 1962. *See* Tom Long, *Bob Woolf, 65; lawyer pioneered financial management of athletes*, Boston Globe, Dec. 1, 1993, at 59 (honoring the sports agent pioneer in an obituary following his death on Nov. 30, 1993). Woolf had so many sports clients that he had to close the doors of his law practice in order to concentrate on them. *Id*. Some of Woolf's most famous clients included Julius Erving, Robert Parish, Larry Bird, Doug Flutie, and Carl Yastrzemski. *Id*.; Shrophire, *supra* note 3, at 21.
15. Robert M. Jarvis & Phyllis Coleman, Sports Law: Cases and Materials 443 (West 1999).
16. George W. Schubert et al., Sports Law 123–27 (1986).
17. *Id*. at 124; *see also* Abrams, *supra* note 11, at 118 (describing the reserve clause as a series of contractual provisions that have "served as the cornerstone of baseball's labor system for a century"). Once a player signed a contract to play for a team, that team owned the rights to that player indefinitely, and no other team could compete for the player's services. *Id*. The only time a player could change teams was if his owner traded him or sold his contract to another owner. *Id*. Essentially, the players were considered to be property rather than employees of the owners. This became known as the "reserve system." *See id.* After nearly convincing the Supreme Court of the United States to repeal baseball's antitrust exemption and dismantle the "reserve system" in 1972, the MLBPA turned to the arbitration process that it had negotiated into the collective bargaining agreement as a way to attack the "reserve system" and better promote player

interests. ABRAMS, *supra* note 11, at 117. In 1975, Los Angeles Dodgers pitcher Andy Messersmith filed a grievance against team owner Walter O'Malley, claiming that he was a free agent—no longer bound in perpetuity to a single team—based on the language of the uniform player's contract. *Id*. at 119. Since the contractual clause only allowed a team owner to renew the terms of the contract for one year at a time, Messersmith claimed that he was free to take his services to another team after a one-year option. *See id*. After three days of hearings, the arbitrator agreed with Messersmith that the option clause only allows a team to renew a player's contract for one year, because an indefinite retention cannot be implied and must be explicitly stated. *Id*. at 124–25. Therefore, in what is considered "the most important single act in the history of the business and law of baseball," the arbitrator ruled that the players were free agents and no longer bound by the reserve system. *Id*. at 126. The Messersmith arbitration hearing accomplished more for baseball in a few days than anybody had done in federal court in 100 years.

18. SCHUBERT, *supra* note 16, at 126.

19. *Id*. at 125.

20. SCHUBERT, *supra* note 16, at 126; *see also* SHROPSHIRE, *supra* note 3, at 20 (demonstrating that the necessary tax advice is "complicated by the fact that a playing career, in most sports, averages less than five years, [therefore] the planner may have to take extra precautions to protect the athlete's earnings.").

21. SCHUBERT, *supra* note 16, at 126.

22. *Internet Gambling Protection Act of 1999: Hearing on Issues Relating to Internet Gambling Before the Senate Subcomm. on Tech., Terrorism, and Gov't Info.,* 106th Cong. 57 (1999) (statement of Bill Saum, Director of Agent and Gambling Activities, NCAA) (stating only that the association is made up of 1,150 schools and 300,000 students).

23. *See* C. Keith Harrison & Suzanne M. Lawrence, *African American Student Athletes' Perceptions of Career Transition in Sport: A Qualitative and Visual Elicitation*, *available at* http://www.umich.edu/~paulball/webpage %20papers/RACEBEHAVIORc.htm (last visited Oct. 4, 2004) (stating that only 1.6% of all NCAA athletes ever make it into professional sports).

24. Todd Fisher, *Amateurism and Intercollegiate Athletics: The Double Standard of Section 12.2.4.2.1*, 3 Sports Law. J. 1, 3 (1996).

25. 2003-04 NCAA Division I Manual: Constitution, Operating Bylaws, Administrative Bylaws (hereinafter "NCAA Bylaws"), § 12.3.1.

26. SHROPSHIRE, *supra* note 3, at 36; *but see* Richard C. Webb, *Amateur Athletics: Eligibility*, 22 S.C. Jur. Sports Law § 26, n.9 and accompanying text (2003) (citing and quoting *Walters v. Fullwood*, 675 F. Supp. 155 (S.D.N.Y. 1987)). At least one federal court, the Southern District of New York, has invalidated a sports agent's contract with a collegiate player for public policy reasons based on the agent's knowing violation of the NCAA regulations. In that case, Chief Judge Brieant stated: "The agreement reached by the parties here, whether or not unusual, represented not only a betrayal of the high ideals that sustain amateur athletic competition as a part of our national educational commitment; it also constituted a calculated fraud on the entire spectator public. Every honest amateur player who took the field with or against Fullwood during the 1986 college football season was cheated by being thrown in with a player who had lost his amateur standing. . . . This Court and the public need not suffer such willful conduct to taint a college amateur sports program." *Walters*, 675 F. Supp. at 163–64.

27. *See* Webb, *supra* note 26, at § 26.

28. *Id*.

29. Hearing I, *supra* note 4, at 2; *see also COLLEGE BASKETBALL; Penalty for N.C. State*, N.Y. TIMES, May 31, 1990, at 14 (reporting that the NCAA ordered North Carolina State University to forfeit over $400,000 that it had received for participating in the basketball Final Four Tournament after allowing Charles Shackleford to play after he had accepted money from a sports agent); Assoc. Press, *COLLEGE BASKETBALL; Florida State's Penalties Upheld by N.C.A.A.*, N.Y. TIMES, Oct. 2, 1996, at 16 (reporting that the NCAA denied Florida State University's appeal to the one year probation it was given for failing to closely monitor sports agent activity on its campus); Anya Sostek, *Jock Trap*, GOVERNING MAGAZINE, June 2002, at 42 (documenting Alabama State Representative Gerald Allen's disappointment and sadness after hearing news of the NCAA sanction on the University of Alabama for letting a star cornerback play a full season of football after receiving money from a sports agent). Further, in 1996, the University of Massachusetts was required to return $151,000 after it participated in the Final Four with current NBA star Marcus Camby, who had accepted clothes, car stereos, prostitutes, and other various items of value from a sports agent. *Id*.; Phil Taylor, *Tangled Web: Marcus Camby was Both Victim and Villain in his Illicit Dealings with Agents While at UMASS*, SPORTS ILLUS., Sept. 15, 1997, at 66. The list is hopelessly and unfortunately endless . . .

30. *See* Hearing I, *supra* note 4, at 7–8. Aside from "runners," there are a few other shady tactics that are common among unscrupulous sports agents: misrepresentation by the agent to the athlete about where he will go in a professional draft, and pre-dated and post-dated contracts (the latter being discussed *infra*). *Id*.

31. *Id*. at 7; *see also Touched by an Agent; National Football League Sport's Agents*, SPORT, May 1, 1999, at 90 (describing this scenario as "the living lie the NCAA finds difficult to detect, impossible to police").

32. *Id*.

33. *See* Hearing I, *supra* note 4, at 7. Nebraska Congressman Tom Osborne, whose testimony and statements are relied heavily upon, is undoubtedly the most knowledgeable congressman on this subject. Before serving in Congress, Osborne coached the Nebraska Cornhuskers Division I football team for over 25 years, winning a total of three national championships. *See id*. at 1. In an effort to educate its student-athletes, the NCAA offers an online information bank on agents and their runners, complete with any relevant and available newspaper articles. *See* NCAA, *Agent Information for Student-Athletes*, *at* http://www1.ncaa.org/membership/enforcement/agents/sa_info/index.html (last visited Oct. 4, 2004) (offering information on agents and runners, gambling and amateurism allegations, sample questions to ask potential agents, and applicable NCAA bylaws on agents, among other things).

34. *See id*. at 7. In an effort to cut down on the use of such shady tactics in football, the NFLPA has just passed a rule requiring every registered agent to submit a list of its "runners" and, more importantly, assume responsibility for their actions. Liz Mullen, *NFLPA will make agents list their 'runners'*, SPORTS BUSINESS JOURNAL, April 5, 2004, *available at* http://www.sportsbusinessjournal.com (subscription required) (last visited Oct. 4, 2004).

35. *See* Bryan Couch, Comment, *How Agent Competition And Corruption Affects Sports And The Athlete-Agent Relationship And What Can Be Done To Control It*, 10 SETON HALL J. SPORTS L. 111, 111 (2000) (explaining how the intense competition between sports agents eventually leads to illegal conduct because of the pressure to sign superstar athletes to enormous contracts).

36. While the scope of this article focuses mainly on the relationship between sports agents and collegiate athletes, there is an abundance of highly publicized cases involving unscrupulous sports agents and professional athletes. *See generally Detroit Lions, Inc. v. Argovitz*, 580 F. Supp. 542 (E.D. Mich. 1984) (rendering a con-

tract between Pro Bowl running back Billy Sims and the now-defunct United States Football League Houston Gamblers invalid because Sims' agent did not disclose the fact that he had a financial stake in the Houston franchise, which is why he persuaded his client to sign there); *Mandich v. Watters*, 970 F.2d 462 (8th Cir. 1992) (involving a National Hockey League star who sued his agent for illegally negotiating a side agreement with the Minnesota North Stars, which deprived the player of post-retirement salaries); *Collins v. Nat'l Basketball Players Ass'n*, 850 F. Supp. 1468, 1472 (detailing a settled claim between Los Angeles Lakers superstar Kareem Abdul-Jabbar and sports agent Tom Collins after Collins breached numerous fiduciary duties and committed fraud); *Hilliard v. Black*, 125 F. Supp. 2d 1071 (N.D. Fla. 2000) (divulging how now-infamous sports agent William "Tank" Black was able to secure free stock in a company and sell it to two of his NFL clients for over $1 million, which he deposited in his personal bank account).

37. *See United States v. Walters*, 997 F.2d 1219 (7th Cir. 1993).

38. *See id.* ("The fraud: causing the universities to pay scholarship funds to athletes who had become ineligible as a result of the agency contracts. The mail: each university required its athletes to verify their eligibility to play, then sent copies by mail to conferences such as the Big Ten."); *see also* Couch, *supra* note 35, at 122 (citation omitted) (detailing the Walters-Bloom case and using it to describe the severity of competition among sports agents).

39. *Walters*, 997 F.2d at 1221. As inducement to sign, WSE offered the players an array of incentives including, "large amounts of cash; monthly wire transfers of funds; interest-free loans, automobiles; clothing; concert and airline tickets; trips to New York City; hotel accommodations; use of limousines; trips to major entertainment events; introduction to prominent entertainers; cash payments and other benefits for family members; and insurance policies." *United States v. Walters*, 775 F. Supp. 1173 (N.D. Ill. 1991) (citation omitted).

40. *Walters*, 997 F.2d at 1221.

41. *Id*.

42. *Id*.

43. *Id*. (describing how WSE approached student-athlete Maurice Douglass and threatened to break his legs before the NFL draft if he did not repay the firm the money it had given him as an amateur).

44. *Id*. at 1221–22.

45. *United States v. Piggie*, 303 F.3d 923 (8th Cir. 2002).

46. *Id*. at 924.

47. *See id*. "During the conspiracy, Piggie paid Jaron Rush $17,000, Korleone Young $14,000, Corey Maggette $2,000, Kareem Rush [now of the NBA's Los Angeles Lakers] $2,300, and Andre Williams $200." *Id*. at 925.

48. *Id*. at 925.

49. *Id*.

50. *See id*.

51. *See Piggie*, 303 F.3d at 924, 926.

52. *Id*. at 925; *see* 18 U.S.C. § 1341 (stating that "Whoever, having devised . . . any scheme or artifice to defraud, or for obtaining money or property by means of false or fraudulent pretenses, representations, or promises . . . places in any post office or authorized depository for mail matter, any matter or thing whatever to be sent or delivered by the Postal Service . . . *or knowingly causes [such matter or thing] to be delivered by mail*" is guilty of mail fraud) (emphasis added); *see also Pereira v. United States*, 347 U.S. 1, 8 (1954) (holding that a mailing by a third party suffices if it is "incident to an essential part of the scheme"); *see also* discussion within this article.

53. *Id*. at 926.

54. Hearing I, *supra* note 4, at 6 (stating that "[there are] guys who have no training, don't even have a college degree, who are telling [student-athletes] that they can handle their contracts, do their taxes, handle all of their public relations, and . . . they have no training in any of these issues"). *Id*. at 6–7.

55. *See* MLBPA, *Frequently Asked Questions*, *at* http://bigleaguers.yahoo.com/mlbpa/faq (last visited Oct. 4, 2004) (stating that agents can become certified *after* they obtain a client on a current Major League Baseball 40-man roster); NFLPA, *Certification*, *at* http://www.nflpa.org/Agents/main.asp?subPage=Certification (last visited Oct. 4, 2004) (requiring aspiring NFL sports agents to pay a $1,600 application fee, attend a two-day seminar in Washington D.C., and take an examination).

56. *See generally*, Tamara L. Barner, *Show Me the . . . Ethics?: The Implications of the Model Rules of Ethics on Attorneys in the Sports Industry*, 16 GEO. J. LEGAL ETHICS 519 (2003) (providing differences between sports agents and sports lawyers and dealing with the *Model Rules of Professional Conduct*, particularly Rule 1.7 and the conflicts of interest that arise with sports lawyers).

57. "NCCUSL is a national organization that drafts uniform and model state laws and comprises more than 300 lawyers, judges, state legislators and law professors appointed by their respective states." NCAA, *Uniform Athlete Agents Act (UAAA) History & Status*, *at* http://www1.ncaa.org/membership/enforcement/agents/uaaa/history.html (last visited Oct. 4, 2004).

58. National Conference of Commissioners on Uniform State Laws, *Uniform Athlete Agents Act (2000)* (hereinafter "UAAA"), *available at* http://www.law.upenn.edu/bll/ulc/uaaa/aaa1130.htm (last visited Oct. 4, 2004); *see also* NCCUSL, *at* http://www.nccusl.org/ (last visited Oct. 4, 2004) (providing drafts, bill tracking in various states, and legislative fact sheets about the UAAA); *see also* Sostek, *supra* note 29, at 42 (explaining that the NCCUSL was reluctant to address the sports agent issue because of its primary work in commerce and family law, but later agreed that it was important enough to address).

59. *See* UAAA, *supra* note 58, Prefatory Note, at 1 (stating that "at least [thirty] States have enacted legislation regulating athlete or sports agents. The statutes differ greatly. . . . There are substantial differences in the registration procedures, disclosures required and requirements relating to record maintenance, reporting, renewal, notice, warning, and security").

60. *Id*., § 4; *see id*., Comment, at 7 (requiring registration on the constitutionally broadest possible scale according to the minimum contacts theory as set forth by the Supreme Court in *International Shoe Co., v. Washington*, 326 U.S. 310 (1945)). "For example, an individual in State A contacting a student-athlete in State B is acting as an athlete agent in both States and is therefore required to register in both States." *Id*.

61. *Id*., § 10 (dictating that each contract *must* contain a warning to the student-athlete that if he or she signs the contract, remaining collegiate eligibility may be lost in accordance with NCAA regulations).

62. *Id*., § 12.

63. *See Id*., § 14.

64. *Id*.

65. *See id*., § 15.

66. *See* Part II discussion, *infra*.

67. UAAA, *supra* note 57, Prefatory Note, at 1 (emphasis added).

68. *See id*., § 15.

69. *Id*.

70. UAAA, *supra* note 58, Comment, at 21–22 (emphasis added).

71. NCAA, *Uniform Athlete Agents Act (UAAA) History & Status*, *at* http://www1.ncaa.org/membership/enforcement/agents/uaaa/history.html (last visited Oct. 4, 2004) (updated regularly) (listing the states and territories that have enacted the UAAA). The states and their codification of the UAAA are: **Alabama** [ALA. CODE §§ 8-26A-01 (2001)], **Arizona** [ARIZ. REV. STAT. §§ 15-1761], **Arkansas** [ARK. CODE ANN. §§ 17-16-101 (2001)], **Connecticut** [Pub. Act 04-55 (eff. Jan. 1, 2005)], **Delaware** [DEL. CODE ANN. tit. 24, §§ 5401], **District of Columbia** [D.C. CODE ANN. §§ 47-2887.01 (2002)], **Florida** [FLA. STAT. ch. 468.451 (2003)], **Georgia** [GA. CODE ANN. § 43-4A-1 (2003)], **Idaho** [IDAHO CODE §§ 54-4801], **Indiana** [IND. CODE §§ 25-5.2 (2001)], **Kansas** [KAN. STAT. ANN. §§ 44-1516 (2003)], **Kentucky** [KY. REV. STAT. ANN. §§ 164.680 (Michie 2003)], **Maryland** [MD. CODE ANN., BUS. REG. §§ 4-401 (2003)], **Minnesota** [MINN. STAT. §§ 81A.01 (2003)], **Mississippi** [MISS. CODE ANN. §§ 73-42-01 (2001)], **Missouri** [MO. REV. STAT. §§ 436-212 (2004)], **Montana** [MONT. CODE ANN. §§ 37-76-101 (2003)], **Nevada** [NEV. REV. STAT. 398.400 (2003)], **New York** [N.Y. GEN. BUS. LAW §§ 899 (Consol. Supp. 2004)], **North Carolina** [N.C. GEN. STAT. §§ 78C-85-105 (2003)], **North Dakota** [N.D. CENT. CODE §§ 9-15.1-01], **Oklahoma** [OKLA. STAT. tit. 70, §§ 70-821.81 (2004)], **Pennsylvania** [PA. STAT. ANN. tit. 5, §§ 1-101 (West 2003)], **Rhode Island** [R.I. GEN. LAWS §§ 5-74-1 (2003)], **South Carolina** [2004, S.C. Acts. 300], **Tennessee** [TENN. CODE ANN. §§ 49-7-2122 (2001)], **Texas** [TEX. OCC. CODE ANN. §§ 2051.001 (1999)], **Utah** [UTAH CODE ANN. §§ 15-9-01 (2002)], **Washington** [WASH. REV. CODE §§ 19.225.010 (2002)], **West Virginia** [W. VA. CODE §§ 30-39-01 (2001)], **Wisconsin** [WIS. STAT. §§ 93.135 (2003)], and the **U.S. Virgin Islands** [39 V.I. CODE ANN. §§ 651 (2002)].

72. *Id*. (naming Illinois as the only state).

73. *Id*. (listing California, Colorado, Connecticut, Iowa, Louisiana, Michigan, Missouri, Ohio, and Oregon).

74. *Id*. (naming Alaska, Hawaii, Illinois, Maine, Massachusetts, Nebraska, New Hampshire, New Jersey, New Mexico, Puerto Rico, South Dakota, Vermont, Virginia, and Wyoming).

75. FLA. STAT. ch. 468.461 (2003).

76. ARIZ. REV. STAT. § 15-1774 (2003).

77. KY. REV. STAT. ANN. § 164.6927 (2003).

78. *See* NCAA, *Agent & Amateurism*, *at* http://www2.ncaa.org/legislation_and_governance/eligibility_and_conduct/ agents_and_amateurism.html (last visited Oct. 4, 2004) (providing student-athletes with information regarding agent fees and reminding them that the NFLPA limits agent fees to 3%).

79. *See United States v. Lopez*, 514 U.S. 549 (1995) (stating that Congress's power only allows it to regulate those commercial activities that "substantially affect" interstate commerce, but paying deference to congressional findings of jurisdiction); *cf. United States v. Perez*, 402 U.S. 146 (1971) (upholding a criminal loan-sharking statute because it is commercial in nature and it affects interstate commerce, even though the crime is purely local). Here, while sports agent activity could presumably "substantially affect" interstate commerce based on the inherent nature of today's sports and endorsement contracts, such activity could also be found to be entirely intrastate, based on the act of signing the contract between a student-athlete and an agent.

80. *See* 18 U.S.C. § 1341 (stating that "Whoever, having devised . . . any scheme or artifice to defraud, or for obtaining money or property by means of false or fraudulent pretenses, representations, or promises . . . places in any post office or authorized depository for mail matter, any matter or thing whatever to be sent or delivered by the Postal Service . . . or knowingly causes [such matter or thing] to be delivered by mail" is guilty of mail fraud, and "shall be fined not more than $1,000,000 or imprisoned not more than 30 years, or both."); *see also* KATHLEEN F. BRICKEY, CORPORATE AND WHITE COLLAR CRIME: CASES AND MATERIALS 125–202 (3d ed. 2002) (providing in-depth background and analysis on mail fraud, schemes to defraud, and various uses of the mail to perpetuate those frauds).

81. U.S. CONST. art. 1, § 10.

82. BRICKEY, *supra* note 80, at 126 (quoting *Badders v. United States*, 240 U.S. 391, 393 (1916)).

83. BRICKEY, *supra* note 80, at 126 (stating that "[b]ecause the statutes are in *pari materia*, they are subject to the rule that they should be given parallel construction."); *see also* 18 U.S.C. § 1343 (prohibiting anyone from "devis[ing] or intending to devise any scheme or artifice to defraud, or for obtaining money or property by means of false or fraudulent pretenses, representations, or promises, transmits or causes to be transmitted by means of wire, radio, or television communication in interstate or foreign commerce, any writings, signs, signals, pictures, or sounds for the purpose of executing such scheme or artifice").

84. Sports Agent Responsibility and Trust Act (SPARTA), 15 U.S.C. §§ 7801–7807 (2004); *see also* H.R. 361, 108th Cong. (2003); S.1170, 108th Cong. (2004).

85. *See* SPARTA § 7807. "It is the sense of Congress that States should enact the Uniform Athlete Agents Act of 2000 . . . to protect student athletes and the integrity of amateur sports from unscrupulous sports agents." *Id*. Congress does not mention any form of uniform punishment.

86. *Id*. § 7802.

87. *Compare id*., *with* UAAA, *supra* note 58, § 14.

88. *See* Part III.A discussion, *infra*.

89. *See* SPARTA § 7803; Hearing I, *supra* note 4, at 17 (quoting Rep. Bart Gordon as stating "[t]here really ought to be criminal activity here, but we are—since we are going through the FTC, they only have jurisdiction really for civil"). Presumably, since SPARTA violations are *civil rather than criminal*, the federal government would not have jurisdiction to levy fines on the civil violations pursuant to the Fine Act. *See* 18 U.S.C. § 3571. The Fine Act generally states that "[a] defendant *who has been found guilty of an offense* may be sentenced to pay a fine." *Id*. § 3571(a) (emphasis added). Since an agent in violation of the civil prohibitions is liable for damages and not "guilty of an offense" under SPARTA, the Fine Act does not apply here. *See id*.

90. Discussed, *supra* note 79 and accompanying text.

91. Hearing I, *supra* note 4, at 16.

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Music, Mantras, and Markets: Facts and Myths in the Brave New World

By Michael A. Einhorn, Ph.D.

"This will prove a brave kingdom to me, where I shall have my music for nothing"

—Stephano, drunkard, *Twelfth Night*

An ersatz alliance of artists, technologists, file-sharers, and law professors now contends that record prices are unfair and the recording industry is non-competitive. The economic folk wisdom is certain—labels are just making too much money for anyone's good. America is a semiotic oligarchy. Present prices do not pass the smell taste for fairness. Cash-deprived college students are forced to huddle in the cold and share files. Perhaps the threat of a compulsory license is the right antidote to restoring truculent record labels to their senses.

The Music Services

We are all entitled to our own opinions, but not to our own facts. In this regard, a factual analysis of the true state of market competition can deconstruct these myths. First, let us consider the music services. Present competition is vigorous. Apple, Sony, Napster, RealNetworks, Wal-Mart, Microsoft, Virgin, and MusicMatch have attracted brand name recognition as music providers. The present state of the market is a far cry from 2001, when MusicNet and Pressplay initially offered kludgy services that did not permit permanent burning.

Second, none of the major service retailers is owned or controlled by any label. The major labels now provide catalog to each of the major services, which may license independent content as well. For example, market leader iTunes has compiled a catalog of over one million songs from 300 labels, including songs from each of the "Big 4" recording companies. This was considered by the Antitrust Division of the Department of Justice, when in 2003 it dropped a two-year investigation of anti-competitive restrictions in label licensing practices.[1]

Third, the new capabilities of online services may present new techniques that facilitate music shopping and listening. Real Network's Rhapsody, the leading subscription service, with 550,000 accounts, now enables sampling with an "all you can eat" streaming service for $9.99 per month; Virgin recently launched a competing service for $7.99 a month that features a one-million-track catalog. Soon to be integrated with Yahoo and its radio service Launch, MusicMatch provides a premier music jukebox and allows friends to sample favored tunes up to three times for free. Weedshare actually pays a portion of its sales revenues to customers who "superdistribute" new songs to other users. Music Rebellion aims to offer prices that may vary by track and/or in line with coincident consumer demand.

Fourth, service prices are now at competitive levels. The market price of 99 cents per download on iTunes, Sony Connect, MusicMatch, and Napster is roughly equal to the related cost of content, bandwidth, credit card services, and administration paid by these services. Price-cost parity is consistent with what would be expected in a competitive market.

Fifth, the business models are instructive experiments. Apple and Sony operate their music services at losses in order to sell their iPods and Walkman devices at considerable profit. Yahoo and MusicMatch will merge two major platforms in order to promote advertising and music to a wide base of customers. Starbucks will forgo bandwidth to allow customer to burn tracks from in-store locations. Circuit City recently bought up the digital music platform MusicNow (formerly known as FullAudio), Target has a distribution deal with Napster, and Best Buy distributes music services from Rhapsody and Napster.

This rivalry in the stratum for music services is competition at its healthiest—new players, processes, and ideas vying for a market share in a newly developing sector. This enables what economist Joseph Schumpeter called "creative destruction." Market innovation is a hallmark of dynamic capitalism.

What stands in the way of faster takeoff of the new music services? The illegal use of peer-to-peer (P2P) services. While market leader iTunes has sold over 125 million songs since its inception in April 2003, P2P may have enabled up to five billion downloads per day by the end of 2003.[2] File sharers now take for free many of the same files that a competitive music service would sell for a reasonable profit. This bypasses the competitive and innovative structure for digital distribution that is now evolving. The power of the potent and reactive forces unleashed in the market crucible will be weakened considerably if pirate services are able to preempt the outcome.

Label Prices and Profits

Are label prices unfair and improper? If so, what price levels and rate parities would be satisfactory? If free market exchange is not appropriate to determining prices, what means or rules are?

As a matter of economic theory, there is no scientific basis to determine whether a price is fair. Professional economists can only consider whether price increases exceed increases in related costs, and whether producer profits are supra-competitive. These would seem to be reasonable proxies for a more philosophic notion of fairness.

Since most of the costs of a record involve the service labor of staffers and creators, a reasonable cost measure would be the consumer price index, which tracks the costs of goods and services that urban workers purchase. When comparing the average price of a CD sold in the United States and the corresponding annual consumer price index over the past ten years,[3] one would see that from 1994 to 2003, the average price of a CD increased 17.8 percent, while the corresponding CPI increased 24.2 percent. In the five years of file-sharing (from 1999 to 2003), the CD price increased 10.3 percent and the CPI increased 10.4 percent.

Year	Price	% Inc.	CPI	% Inc.
1994	12.78	NA	148.2	NA
1995	12.97	1.5%	152.4	2.8%
1996	12.75	-1.7%	156.9	3.0%
1997	13.17	3.2%	160.5	2.3%
1998	13.48	2.4%	163	1.6%
1999	13.65	1.3%	166.6	2.2%
2000	14.02	2.7%	172.2	3.4%
2001	14.64	4.4%	177.1	2.8%
2002	14.99	2.4%	179.9	1.6%
2003	15.06	0.4%	184	2.3%

Regarding producer profits, in 2003 the Recording Industry Association of America (RIAA) reported an average store CD price of $15.05 (dividing annual revenues by sales, on year-end statistics available on the RIAA's website).[4] The numbers available from 2001 show that 53 percent of collected retail revenue went to the recording label, with the remainder to the store and intermediate distributor.[5] Multiplying $15.00 by 53 percent, a label then receives $8.00 wholesale. Deducting $1.00 to $1.50 for manufacturing and packaging of the disk and box leaves $6.50 to $7.00.

Of the remaining $6.50 to $7.00, some 12 to 15 percent (8.5 cents per song) are generally assigned to cover the mechanical royalties paid to music publishers for reproduction rights in their compositions.[6] Each recording act is assigned an additional artist royalty that may generally amount to about 10 percent of a suggested retail price (that probably exceeds $15.00),[7] which may be closer to 20 percent of the wholesale amount that a label actually receives. Once established, royalties in any account may be used to retire unrecovered advances or owed promotion costs paid out beforehand in order to produce and market the album. When the account is cleared, artists receive all additional royalties directly.

So how does it all work out? Using publicly available information regarding costs at EMI is instructive.[8] For the fiscal years 2000 through 2002 (2003 would be less favorable), EMI's data shows:

	2002	2001	2000
Revenue[9]	3,486.7	3,785.3	3,798.8
Cost—Goods Sold[10]	2,461.3	2,463.2	2,467.0
Gross Profit[11]	1,025.4	1,322.1	1,331.9
SG&A Expense[12]	1,169.4	861.8	846.8
Net Receivables[13]	1,088.7	1,230.6	1,319.9
Inventories[14]	61.3	65.3	63.5

The chart illustrates a few points. First, as a percentage of revenue, cost of goods sold (which include manufacturing, packaging, artwork, and artist and publisher royalties) ranged from 65 to 70 percent of company revenues. Second, revenues that exceeded direct costs (i.e., gross profits) were used to cover apportioned overhead expenses of artists and repertoire, record promotion, and other business development needed to acquire talent and introduce new acts through radio, retailing, video production, and promotional touring. Third, gross profits at EMI in 2002 were insufficient to cover its Selling, General, and Administrative (SG&A) expenses. Even holding SG&A at its lower 2001 level, one dollar of revenue yields 4.6 cents of operating income, once all expenses were deducted. With no apparent great excess, the accrued amount is used to compensate shareholders for use of their equity.

Finally, net receivables at EMI amounted to about one-third of its incoming revenues in 2002. These amounts generally result from unsecured advances and artist support expended in hope of eventual full recovery, which may actually result fully in perhaps 10 percent of a label's acts. However, a label's capacity to monetize costs from any of its acts depends crucially upon its ability to deter piracy. This is a particularly relevant point for the most popular venues; a casual inspection of playlists on the Big Champagne tracking service reveals that P2P users download new tracks from major artists more than anything else.[15]

The Labels and the Services

As another bit of folk wisdom, labels apparently should learn to lower prices to the music services. For example, after Real Networks slashed download prices to 49 cents per song and $4.99 per album, Steven Levy of *Newsweek* recommended that labels lower their online royalties as well. After all, he suggested, the distribution costs of content online are zero (sic), so why not slash label prices accordingly?

A major label receives 65 cents from each online download that sells for 99 cents.[16] The remaining 34 cents pays for bandwidth, credit card use, distributor service and overhead. Accordingly, if an online album costs $9.99, we can presume that the label receives no more than $6.50. Counting for differences in distribution expenses, a label earns a similar margin in both store and digital retail sectors.

It is consistent with hard-nosed management and competition that a producer should recover the same profit margin from the new distribution channel as it does from its incumbent alternatives. As digital sales continue to increase, former buyers of store CDs will purchase the album online instead. If labels fail to recover the requisite margin, profitability in the emerging market will evidently decline. So, too, does the incentive to record and promote new acts.

Alternative Compensation Systems

A trendy academic proposal that would allow music and movie fans to make unlimited takings of copyrighted content is "alternative compensations systems," which is newspeak for either compulsory licensing or the strong implicit threat thereof. Despite its impracticality, the present dialog nonetheless serves as a keen example of what happens when Richard Posner's "public intellectuals" run amok without factual immersion or disciplined attention to economic reasoning.

Under a number of enabling proposals, users may freely download some subset of music or movies, for example, through P2P networks of various natures.[17] Neil Netanel of UCLA would allow noncommercial takers to "share" (i.e., take) everything they want.[18] Terry Fisher confines his wish list to movies and music that can be monitored in real time, but extends his generosity to include commercial takings as well.[19] Anxious not to be abusive, Jessica Litman suggests that content owners be permitted to "opt out," but disqualifies record labels entirely from receiving compensation (unwittingly guaranteeing that they will indeed opt out).[20]

Proper levy amounts under compulsory licensing would be instituted by Congress and administered by the Copyright Office. Revenues would be collected on Internet subscriptions, computers, storage media, and other services and hardware that have the potential to be used for an infringing activity. Collections in the United States would be distributed to copyright owners per values assigned by a royalty tribunal or arbitration panel convened by the Copyright Office.

These theories present a few practical problems. First, the levies would be assessed upon individual equipment purchasers and Internet subscribers, regardless of their actual use of P2P technology and level of copyright infringement. In order to finance the entertainment industry and the "catch as catch can" proclivities of some of its younger listeners, the majority of computer users would be harmed by a system of taxation that will reduce their wealth and possibly stifle their purchases and upgrade of equipment.

Second, the royalty tribunal or arbitration panel would face the daunting task of parsing out a fixed pot of revenues to contending uses and determining the relative worth of each. How would this work? If Netanel's idea were seriously considered, the tribunal or panel would need to consider the relative worth of a 100-page novel, a two-hour movie, a three-minute song, a four-by-seven photograph, and a five-frame comic strip.

With regard to Fisher's theory, the tribunal or panel must decide the value of different lengths of the same product; for example, how much more a symphony than a song is worth, how much more a full-length movie is worth versus a documentary short, and how much more a two-hour recording is worth versus a two hour film. Are any distinctions made for new releases now in video stores versus classics from 1932? Will I be able to upload movies that I rent from Blockbuster? What about TV shows before they enter into the syndication market? How does one begin to measure the displacement, loss of licensing value, and commensurate market harm?

Third, the long-run administration costs for setting and revising the license terms will be considerable. As consumers download increasing amounts of content, copyright administrators and legislators will need to reconvene hearings annually just to adjust the tax instrument in order to keep up with revenue requirements. A souvenir of an earlier day, this kind of "pancaking" in rate regulation was famous for devastating the electric utility sector, whose investments in generation plant (much like investment in artistic production) required a revenue recovery that could be reasonably anticipated.

Furthermore, in the foreseeable event that content downloading outgrows anticipated levy dollars, compensation per individual work would necessary diminish. Content owners then fight for a revenue pot that bears no direct relation to the value of the underlying content. The uncertain nexus between individual effort and anticipated reward evidently harms the incentive of a content provider to invest resources needed to produce and bring its commercial wares to market.

Fourth, what do we do about foreign takings of United States' products? Congress evidently cannot levy a fee on other nation's computers or ISP subscriptions, and the U.S. Copyright Office has no ratemaking authority over them.

What would then be done? We obviously cannot just appear in foreign capitals and demand that they, too, institute levies on equipment and subscriptions, with the garnered amounts being passed back predominantly to the United States-based content owners. To ensure that our artists and labels would be justly compensated, the U.S. Copyright Office would have to then review the foreign rates in order to determine if they are consistent with our valuations of displaced revenues. However, if the non-U.S. analysts come up with different numbers than those from the Copyright Office, what are the odds that we would all sit down and reason it through before WIPO? Sounds good? You bet! Who said it cannot be done?

Endnotes

1. Statement by Assistant Attorney General R. Hewitt Pate Regarding the Closing of the Digital Music Investigation, *at* http://www.usdoj.gov/atr/public/press_releases/2003/201946.htm (retrieved October 5, 2004).
2. *At* http://news.com.com/Online+musics+winners+and+losers/2030-1027_3-5133561.htm (retrieved October 5, 2004).
3. Recording Industry Association of America, Yearend Statistics: 2003, *at* http://www.riaa.com/news/newsletter/pdf/2003yearEnd.pdf (retrieved October 5, 2004).
4. S. Levy, *Forecast: Song Costs May Fall Like Rain*, *at* www.msnbc.msn.com/id/6037780/site/newsweek (retrieved October 1, 2004).
5. W. Fisher, Promises to Keep: Technology, Law, and the Future of Entertainment (Stanford University Press), Chapter 6, 11, *available at* http://cyber.law.harvard.edu/people/tfisher/PTKChapter6.pdf (retrieved October 5, 2004).
6. Labels benefit to the degree that they recover these fees through their publishing divisions, or if they can negotiate payments down to controlled compositions owned by the particular recording artist.
7. This number incorporates some informal downward adjustments from gross to incorporate packaging, return, "new technology" costs, and other idiosyncratic deductions that are now a part of a recording contract.
8. G. Ziemann, *EMI—The World's Last Record Company*, *at* http://www.azoz.com/news/truth12.html (retrieved October 5, 2004).
9. Revenue equals totals sales from operations.
10. Cost of Goods Sold includes all expenses directly associated with the production of goods or services the company sells (such as material, labor, overhead) as well as artist and publisher royalties. It does not include SG&A or depreciation.
11. Gross Profit equals Revenue minus Cost of Goods Sold.
12. SG&A expenses include all salaries, indirect production, marketing, and general corporate expenses.
13. Net Receivables are amounts owed to the company by retailers, distributors, and artists, net of any provisions for bad debts.
14. Inventories are merchandise bought for resale or supplies and raw materials purchased for use in revenue producing operations.
15. Most popular tracks on P2P systems are posted at http://www.bigchampagne.com. (retrieved October 5, 2004).
16. *See, e.g.*, http://www.narip.com/index.php?page=article/Shrinking (retrieved October 5, 2004).
17. For a kind review, see J. Gratz, *Reform in the 'Brave Kingdom'; Alternative Compensation Systems for Peer-to-Peer File Sharing*, *at* http://www.joegratz.net/files/JosephGratz-ReformInTheBraveKingdom-Dec19.pdf (retrieved October 5, 2004).
18. N.W. Netanel, *Impose a Noncommercial Use Levy to Allow Free Peer-to-Peer File Sharing*, 17 Harv. J.L. & Tech., December 2003.
19. *Supra* note 5.
20. J. D. Litman, *Sharing and Stealing*, *at* http://ssrn.com/abstract=472141 (retrieved October 5, 2004).

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When a Gold Record Just Ain't Enough—Undue Influence and the Clash Over the Jimi Hendrix Estate

By Todd A. Gillman

"And so castles made of sand fall in the sea, eventually."[1] Much the same can be said of family relationships when the multimillion-dollar estate of a legendary guitarist is at stake. On April 19, 2002, Al Hendrix, Jimi Hendrix's father and the sole heir[2] to his estate, died. He left in his will the entire estate, minus one gold record, to Janie Hendrix, Al's adopted daughter and Jimi's half-sister. The recipient of the one gold record was Leon Hendrix, Al's estranged son and Jimi's brother. This article examines Leon Hendrix's legal challenge to the division of the Jimi Hendrix estate and Leon's allegations of Janie Hendrix's undue influence over Al Hendrix's will.[3] Additionally, the article explores the marketing and portrayal of Jimi Hendrix's image through Experience Hendrix and Authentic Hendrix, the privately-held companies run by Janie Hendrix that were created for the purpose of promoting and furthering the merchandising of Jimi Hendrix's music and likeness.

Contesting a Will and Undue Influence—The Basics[4]

In Washington State, the procedures for initiating a will contest are statutory and governed by the Revised Code of Washington [RCW] §§ 11.24 *et seq*. A will contest must be filed within four months of the admission of a will to probate.[5] Thus, an interested party must move quickly. To qualify as an "interested party," a petitioner challenging a will must have a "direct, pecuniary interest" in the will's probate.[6]

> The Washington courts have defined the term "undue influence" as influence: [w]hich at the time of the testamentary act, controlled the volition of the testator, interfered with his free will, and prevented an exercise of his judgment and choice . . . influence tantamount to force or fear which destroys the testator's free agency and constrains him to do what is against his will.[7]

The court in *Dean v. Jordan*[8] set forth the factors to be reviewed when assessing circumstantial evidence of undue influence. First, the beneficiary must have occupied a fiduciary or confidential relationship with the testator.[9] Fiduciary relationships are based on trust and reliance, and do not necessarily have to be based on a blood relationship. Second, the beneficiary must have actively participated in the preparation or procurement of the will.[10] Third, the beneficiary must have received an unusually or unnaturally large portion of the estate.[11] Other factors which are examined are the age, health and vigor of the testator; the nature and degree of the relationship between the testator and the beneficiary; and the opportunity for exerting the undue influence.[12] As the court in *Dean v. Jordan* stated:

> The combination of facts shown by the evidence in a particular case may be of such suspicious nature as to raise a presumption of fraud or undue influence and, in the absence of rebuttal evidence, may even be sufficient to overthrow the will.[13]

"'And so castles made of sand fall in the sea, eventually.' Much the same can be said of family relationships when the multimillion-dollar estate of a legendary guitarist is at stake."

As noted in the *Estate of Lint*,[14] if the presumption of undue influence is found, it can shift the burden of proof "[to the] proponents of the will . . . to come forward with evidence that is at least sufficient to balance the scales and . . . restore the equilibrium of evidence toward the validity of the will."[15]

Leon Hendrix's Challenge

The Jimi Hendrix estate is valued at between $150 million and $240 million.[16] Leon Hendrix sought one-quarter of the estate instead of merely the gold record that he received.[17] Leon asserted in his estate petition that Al Hendrix's will and living trust were procured through Janie Hendrix's undue influence. He alleged that Ms. Hendrix, as Al's adopted daughter and Jimi's half-sister, established a confidential and/or fiduciary relationship with Al.[18] In addition, Leon alleged that Ms. Hendrix assumed the role of Al's former financial advisor, Leo Branton, and Al thereby became dependent upon Ms. Hendrix to handle all legal and business affairs for him since he was unknowledgeable to handle them for himself.[19] Further, Leon alleged that Ms. Hendrix purposefully isolated Al from friends and family to increase his dependence on her.[20] It was also alleged that Ms. Hendrix attempted to interfere with the relationship between Leon and Al by repeatedly telling Al that Leon was not his biological child.[21] Finally, Leon asserted that Ms. Hendrix retained and/or had extensive dealings with the attorneys that drafted Al's will.[22]

"Despite the closure attained from this ruling, it is fairly clear that the bonds of the Hendrix family will remain irreparably broken."

Experience Hendrix, LLC/Authentic Hendrix

There has been much controversy surrounding the marketing and promotion of Jimi Hendrix's image through Experience Hendrix, LLC, the company operated by Janie Hendrix and other relatives, and Authentic Hendrix, the business established to promote Jimi's image and likeness. Authentic Hendrix has emblazoned Jimi's image on everything from vanilla-scented car air fresheners to cellular phone covers. At one time, boxer shorts and golf balls were also available.[23] Janie Hendrix realized that although the golf balls with Hendrix's likeness bothered some fans, she said that Al Hendrix wanted them, because his own father had once worked at a golf course that excluded blacks.[24] (However, it appears that the dismayed fans have secured a minor victory on behalf of their guitar god, as the golf balls and boxer shorts are no longer available on the website.[25])

According to Ray Rae Goldman, director of archival research for the James Marshall (Jimi) Hendrix Foundation, "[y]ou'd be hard-pressed to find any hard-core Hendrix fan that approves of the way Janie has handled the estate or Jimi's image or the marketing . . . [t]hey've topped Elvis or the Stones or anybody for crass marketing."[26] The battle over Jimi's marketing and the estate distribution has spawned two competing camps with their own Internet websites to generate public support.[27] Leon's site, http://www.OriginalHendrix.com, allows visitors to sign a virtual petition and encourages visitors to "[h]elp preserve Jimi's legacy, GIVE THE POWER TO LEON! The Hendrix Estate isn't portraying Jimi in a manner that does him justice."[28] In contrast, Janie promotes Jimi Hendrix with the sites http://www.ExperienceHendrix.com and http://www.AuthenticHendrix.com.

In a dramatic decision rendered on September 24, 2004, after a seven-week trial, Judge Jeffrey M. Ramsdell of King County Superior Court, Seattle, Washington, ruled that Janie Hendrix and her cousin had mismanaged the Hendrix estate.[29] According to Judge Ramsdell, Ms. Hendrix failed to make payments to the Hendrix family members for whom trusts were created in Al Hendrix's will.[30] The decision allows Ms. Hendrix to retain control of Experience Hendrix, but she will no longer have any power to direct how trust payments are disbursed to the rest of the family.[31] Judge Ramsdell also ruled that Leon Hendrix was not entitled to anything from his father's will other than the gold record that he had previously received, since Leon's struggles with drug addiction, failure to complete a treatment program, unwillingness to work and his continual demands for money were the major reason that Al had removed him from his will.[32] Despite the closure attained from this ruling, it is fairly clear that the bonds of the Hendrix family will remain irreparably broken.

Endnotes

1. Lyric from "Castles Made of Sand" from the Jimi Hendrix Experience's second album, *Axis: Bold As Love*, originally released in 1967.
2. Jimi Hendrix died suddenly on September 18, 1970 without a will. Thus, his father inherited Jimi's entire estate by virtue of the intestate laws.
3. I would like to thank Lance Losley, Esq. of Ryan Swanson & Cleveland, PLLC, Leon Hendrix's attorney, for his invaluable assistance with this article, as he provided me with background, pleadings and guidance regarding the issues.
4. The litigation regarding Al Hendrix's will is venued in the Superior Court of the State of Washington; thus, Washington estate law is examined in this article. For this section, I credit Paulette Peterson, Esq. of Keller Rohrback, LLP in Seattle, Washington, with providing a superb overview of this topic in her continuing legal education presentation materials entitled "Will Contests," contained in the 6th Annual Probate Litigation & Ethics seminar materials of the Kings County Bar Association, Seattle, Washington.
5. *See* RCW § 11.24.010; *see also In re Estate of Young*, 23 Wash. App. 761, 598 P.2d (1979).
6. *See In re O'Brien Estate*, 13 Wash. 2d 581, 126 P.2d 47 (1942).
7. *See Estate of Lint*, 135 Wash. 2d 518, 957 P.2d 755 (1998), *quoting In re Bottger's Estate*, 14 Wash. 2d 676, 129 P.2d 518 (1942).
8. *See* 194 Wash. 661, 79 P.2d 331 (1938).
9. *Id*.
10. *Id*.
11. *Id*.
12. *Id*.
13. *Id*.
14. *See* 135 Wash. 2d 518, 957 P.2d 755 (1998).
15. *Id*.
16. *See* Gary Graft, *Jimi Hendrix's brother sues for share of the estate*, August 11, 2002, *available at* Yahoo! News http://www.yahoonews.com.

17. See *id*. Forbes magazine estimated that in 2002, the estate earned $8 million a year, $2 million less than Bob Marley's estate and $1 million more than Marilyn Monroe's. *See also* Sarah Kershaw, *Disputes cast a haze over Hendrix legacy*, July 29, 2003, *available at* International Herald Tribune Online, hyperlink http://www.iht.com.
18. *See "Amended Petition" In re The Revocable Living Trust of James Allen Hendrix*, Superior Court of Washington in and for King County, Index No. 02-4-02569-0 SEA.
19. *See id*. at paragraph 87.
20. *Id*. at paragraph 89.
21. *Id*. at paragraph 90.
22. *Id*. at paragraph 94.
23. *See* Sarah Kershaw, *Rock Idol's Legacy Devolves Into Family Feud*, N.Y. Times, July 23, 2003.
24. *See id.*
25. *Id.*
26. *See* http://www.authentichendrix.com (in which a search of "golf balls" and "boxer shorts" yields the response "We're sorry but your search yielded nothing . . .").
27. *See* Kershaw, *supra* note 23.
28. *See id*.
29. *See* http://www.OriginalHendrix.com.
30. *See* Brian Alexander, *Judge Settles Long Family Feud Over Jimi Hendrix's Estate*, N.Y. Times, September 25, 2004.
31. *See id*.
32. *See id.*

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Howard Stern, the Iconic Symbol of Freedom or Indecency: Who Decides?

By Tamar Jeknavorian

In 1950 Lucille Ball and Ricky Ricardo were ready to have their first child on their hit show "I Love Lucy," and the executives at NBC insisted that the actors refrain from using the term "pregnancy," as it carried with it the idea of sexual relations.[1] Fast-forward 50 years, and with the turn of the century, television and radio broadcasters rely on the mere idea of sex to generate high revenues.[2] Between 1950 and today, both government and public interests in broadcast regulation have evolved. Unfortunately, a recent usurpation of government power has created a divide between those who own the public airwaves and those who have the rights to regulate it.

This article will trace the history of governmental regulation in broadcast media. It will also discuss the different influences over broadcast media with regard to indecency and offer comment regarding the constitutional dangers present within the latest legislative proposals for indecency and broadcast regulation.

The History of the Regulation of Indecency and Broadcast Media

In 1926, The National Broadcasting Company (NBC)[3] aired the first national radio broadcast from New York City.[4] The first broadcast of television followed one year later.[5] Congress created the Radio Act of 1927[6] in response to this rapidly advancing medium of broadcast communication and acquired federal control of the airwaves.[7] The Radio Act established the Federal Radio Commission (FRC),[8] with the stated objective to police the limited airwaves through a system of granting and revoking licenses to broadcasters.[9] Although the primary concern of the FRC was to monitor the scarcity of the airwaves, content regulation loomed in the background.[10]

Recognizing the need for additional administrative help,[11] on June 19, 1934, Congress replaced the Radio Act with the Communications Act (1934 Act).[12] Through the 1934 Act the Federal Communications Commission (FCC) was born.[13] The FCC received broad authority to continue regulating the airwaves[14] and to "encourage the larger and more effective use of radio in the public interest."[15]

Case law soon began to develop, helping define exactly how pervasive a position the FCC could maintain in broadcast regulation.[16] For example, in *National Broadcasting Co., Inc. v. U.S.*,[17] the Supreme Court declared that the FCC retained powers beyond trafficking the airwaves, and upheld the constitutionality of the 1934 Act.[18] The Court also reiterated the imperative notion of promoting the public's interest in radio broadcasting, focusing on the listener's interest in receiving diverse information.[19] To further aid the broadcasters, the FCC published a "Blue Book"[20] of public interest obligations.

In 1948, a few years after *National Broadcasting Co., Inc.*,[21] Congress specifically addressed the issue of obscene and indecent broadcasting for the first time.[22] Title 18, Section 1464 makes it a federal violation to broadcast any "obscene, indecent or profane language."[23] The FCC may administratively enforce Section 1464 by imposing various penalties, including monetary forfeiture and revocation of a broadcaster's license.[24]

As time passed, broadcasters raised constitutional concerns surrounding Section 1464, and demanded more constitutional protection in broadcast media.[25] In *FCC v. Pacifica Foundation*,[26] broadcasters once again asked the court to clarify the scope of governmental power within the broadcasting industry.[27] This time the confusion lay specifically in Section 1464.[28] The Supreme Court found the broadcast of George Carlin's "7 Dirty Words" indecent, yet not obscene, concluding that both the language of, and FCC's interpretation of Section 1464 was constitutional.[29] The Court began by reiterating that the appropriate definition of indecency was, "language or material that depicts or describes, in terms patently offensive as measured by contemporary community standards for the broadcast medium, sexual or excretory activities or organs."[30] Next, the Court justified its holding by recognizing the "pervasive presence and unique access to children"[31] inherent in broadcast media.[32] As a result, *Pacifica* remains one of the most influential cases in laying the foundation of what can be considered "indecent broadcasting" today.[33]

Enforcement of Section 1464 also drew more controversy over the FCC's regulating activities.[34] In particular, confusion lay in the difference of treatment by the Court between indecent speech and obscene speech.[35] Distinct from obscene speech,[36] indecent speech is afforded protection under the First Amendment.[37] However, after *Pacifica,* the court redacted some of that protection by authorizing the FCC to regulate indecent broadcasts when the broadcasts' intrusive presence to children was probable.[38]

Although *Pacifica* seemed to solidify the FCC's position in broadcast regulation, the decision, in fact, appeared to limit its interference.[39] Over the next decade, governmental power seemed to take a stagnant position with regard to regulating the presence of indecency in the airwaves.[40] In early 1980, the FCC embarked on the "Deregulation of Radio."[41] The FCC explained the policy shift by "arguing for more reliance on marketplace forces and less on content controls."[42] Public interest remained the FCC's primary concern[43] and it was expressed that relying on the marketplace[44] would help reduce the time and money spent on the renewal process and increase efforts in bettering the FCC's services with diverse broadcasting.[45]

The broadcasters' newfound freedom proved to be short-lived. Before the decade was over, the FCC was again unexpectedly knocking on their doors.[46] Similar to *Pacifica*, broadcasters were in court inquiring what exactly constituted indecent material.[47] For example, in *In re Infinity*,[48] the FCC claimed that it had received several complaints of indecent broadcasts regarding Howard Stern's show.[49] The court referred back to *Pacifica's* definition of indecency and explained that the more generic definition of indecency provided the appropriate standard.[50] With emphasis on the general definition, broadcasters unsuccessfully argued that the law was both vague and subjective.[51] Ultimately, the FCC dropped the charges against Infinity, leaving behind a warning,[52] and utilized the case as a platform to advise broadcasters that penalties for indecent programming would be imposed and upheld.[53]

Furthermore, in *Action For Children's Television (ACT) v. FCC*,[54] the court engaged in a series of cases[55] in order to establish a constitutional time restriction for broadcasting indecent programming, [56] which had been an issue raised in *In re Infinity*.[57] In *ACT I*, the court struck down the Commission's attempt to ban indecent material between 6:00 a.m. and 11:00 p.m.,[58] remanding the case to establish the proper hours.[59] Prior to reaching a decision on remand, Congress passed a "24 hour ban" on broadcasting indecent material under Section 1464.[60] In *ACT II*, the court quickly found the total ban unconstitutional[61] and explained that in order to keep the balance between protecting the welfare of youth and protecting the broadcasters' First Amendment rights, some safe harbor hours must be in place.[62] Under the Telecommunications Act of 1992,[63] Congress posited new safe harbor hours to take place from midnight to 6:00 a.m.[64] Eight years after *ACT I*, the court finally arrived at today's "safe harbor" hours, in *ACT III*.[65] Broadcasting indecent programming between the hours of 6:00 a.m. and 10:00 p.m. is a violation of Section 1464.[66] These safe harbor hours were constitutionally justified by the traditional interest of protecting children and aiding parental supervision.[67]

During the *ACT* cases, the FCC issued fines to a broadcasting company in Chicago that led the industry into the throes of more guidelines and confusion.[68] In November 1989, the FCC fined Evergreen Media Corporation's "Steve and Garry Show" for several indecent broadcasts.[69] The charges by the FCC resulted in *United States v. Evergreen Media Corp*,[70] where the broadcaster argued that the FCC's enforcement policies were unlawful.[71] Five years after the FCC initially issued a fine to Evergreen Media Corp., the case settled.[72] Most importantly, the settlement terms included a promise by the FCC to publish yet another set of guidelines for broadcasters[73] within 90 days.[74]

Yet the 90 days passed and the broadcasters were left empty-handed, until seven years later when the guidelines were finally released[75] (during those seven years, the FCC continued to impose fines on broadcasters[76]). The 2001 guidelines consisted of five sections, including an analytical step-by-step approach to the FCC's decision-making process[77] and comparison section of actual cases that the FCC deemed "indecent" and "decent."[78] Although the guidelines did not alter the existing law, the FCC stressed the fact that it would screen indecent portions of a broadcast in the context of the entire broadcast.[79] The 2001 guidelines also offered the following three factors to help broadcasters determine whether a broadcast would be deemed indecent: "(1) the explicitness or graphic nature of the description or depiction of sexual or excretory organs or activities; (2) whether the material dwells on or repeats at length descriptions of sexual of excretory organs or activities; (3) whether the material appears to pander or is used to titillate, or whether the material appears to have been presented for shock value."[80] Needless to say, broadcasters were not comforted with the explanation presented.[81]

In 2003, the FCC tightened the ropes on indecent broadcasts.[82] In two recent cases,[83] the FCC appeared willing to sanction broadcasters with harsher monetary fines and threats of severe penalties, such as license revocation.[84] Specifically, three themes emerged from these and similar cases that have catapulted broadcasters into a realm of heightened broadcast regulation.[85] First the FCC decision-making process, usually carried out by the entire Enforcement Bureau, is now conducted solely by the five commissioners.[86] Second, the FCC began citing each incident of indecency within a single broadcast as a separate violation, as opposed to fining the broadcasters once for the entire broadcast.[87] Last, and most important, the FCC is strongly advocating license revocation as its likely choice of sanction for serious violations.[88]

The Players in the Game of Broadcast Regulation

Throughout its history, indecency in broadcasting has been a roller coaster ride of regulation and deregulation, unclear governmental standards and unchanging judicial interpretation. Today broadcast regulation stands on a foundation composed of several layers, each serving a definitive role. We will now explore the key influences in broadcast regulation and how these influences brought regulation to its current state.

The Federal Communications Commission

The FCC is an independent federal regulatory agency created by Congress to regulate interstate and foreign radio communications pursuant to the 1934 Act.[89] The Commission consists of five commissioners appointed by the President and approved by the Senate.[90] The 1934 Act defined both the scope and limitations of the Commission's power with regard to broadcast regulations.[91]

The FCC initiates an investigation of a broadcast only after it receives a complaint from the public.[92] If the Commission receives a proper complaint,[93] a review of the material is completed by the Enforcement Bureau,[94] and a preliminary determination is made as to whether a violation exists under Section 1464.[95] Once an initial violation is found,[96] the named broadcaster is informed that it is under review[97] via a Letter of Inquiry (LOI).[98] The broadcaster is then offered an opportunity to explain the material and provide a defense.[99] If the Enforcement Bureau finds the broadcaster's explanation compelling, the fines are dropped.[100] If the Commission is not satisfied by the broadcaster's reply, a full investigation of the material takes place, and if deemed indecent, a Notice of Apparent Liability (NAL) is issued to the broadcaster.[101] At this point the broadcaster (or its attorney) may respond, typically within 30 days,[102] by paying the fine or defending against payment.[103] As NAL is not a final decision, the Commission reviews the arguments of the broadcaster once again, then makes the final determination as to whether or not to issue the forfeiture.[104] If there is no appeal by the broadcaster, the decision becomes final.[105] However, the broadcaster may once again argue for a rescission or reduction of the forfeiture order,[106] or refuse to pay the fine.[107] At that point, the FCC will send collection letters to the broadcasters.[108] Unanswered letters may result in trial.[109]

The FCC's investigative and enforcement process has been met with considerable criticism.[110] Opponents of the procedure argue that the process is too arduous, making resolution for broadcasters lengthy and costly.[111] Some even argue that, in order for the regulation itself to be effective, the FCC should not wait to receive complaints. Rather, an alternative would be for the FCC to aggressively search the airwaves itself[112] and apply fines evenly to all violators.[113] Others feel that the checks and balances placed on the FCC need time restraints.[114] All in all, at the turn of the century, the FCC made clear that its presence in broadcast regulation was stronger then ever before.

The United States Supreme Court

The judicial system, in particular the Supreme Court, shaped broadcast regulation from the onset of governmental regulation.[115] Serving as a referee between the public (namely the broadcasters) and the government, the Court continued to maintain a similar position for the past several decades. Early on, it recognized the limitations of broadcast media, pointing out that the scarcity of the airwaves available to the public differentiated broadcast media from other mediums of communication.[116] To ensure that the public received diverse information, the Court acknowledged (and continues to acknowledge today) the government's ability to regulate the content of broadcasts.[117] The Court also determined that indecent broadcasts are protected by the First Amendment freedom of speech.[118] Accordingly, when attempting to restrict indecent broadcasts, the FCC must present regulation that has narrowly tailored means in order to achieve a compelling governmental interest.[119] The Supreme Court has consistently upheld the FCC's interest in protecting the welfare of youth as a compelling governmental interest.[120] Most recently, it balanced these interests by allowing the regulation of indecent broadcasting during certain hours of the day, while letting broadcasters freely air indecent speech during the remaining hours.[121]

Based on its decisions over the past 70 years, it appears that as long as children are likely to be in the audience, the Supreme Court will not change its position on regulating broadcast media. This leaves limitations on the broadcasters' constitutional rights.

The Complaining Public

The public's role in regulating indecent broadcasting creates a competing set of interests.[122] In theory, the FCC awaits complaints from the public before taking action against a broadcaster.[123] The Procedural Manual of the FCC commands the FCC to investigate the broadcasts with the "total community" in mind, and not to succumb to personal claims.[124] While one sector of the public creates the broadcasts, others are relied upon to control the broadcasts through complaints, and a tugof-war ensues when attempting to meet the purpose behind the FCC, namely, to serve the public's interest.[125]

Parents

The well-recognized interest of protecting children is based on the idea that broadcast regulation helps parents supervise what their children are exposed to.[126] The interest of protecting children began with the dangers of indecent print media.[127] At that time, the Court noted the state's interest in the well-being of its youth, separate and distinct from parents' interests in exercising authority over their children.[128] Several decades later, parents are directly involved in broadcast regulation by sending in complaints to the FCC.[129] The questions become whether all parents want this governmental help or whether the complaints filed by parents are an attempt to achieve the state's own interest in protecting children, thereby ensuring a level of morality in its citizens.[130] If the answer becomes the latter, constitutional issues arise as to the legitimacy of the government's ability to take on a parenting role.[131] Recently, the Court addressed the appropriateness of the government acting as a "super parent."[132] Although the compelling interest of safeguarding the welfare of children is the backbone of broadcast regulation, there is a presumptive notion that the parent wants or needs help. Absent evidentiary support,[133] restrictions based on this type of assumption may be unconstitutionally violating the free speech of others.

Religious Groups

Religious groups have set out to clean the airwaves in an attempt to follow and adhere to their chosen beliefs.[134] For example, Christian organizations "determined to foster Christian values" recruited people to file complaints in the past.[135] In fact, it was the actions of these and similar groups that led to the usurpation of broadcast regulation in the late 1980s and early 1990s.[136] The groups worked with the FCC and essentially sought out individuals to register complaints.[137] The FCC insinuated what a particular complaint required, and even went as far as telling the groups which programs were indecent and which failed to meet the government's standards.[138] Although many argue that protecting children is a constitutional interest, however, promoting the ideologies of a particular religion is not.[139]

Politics

Coming into an election year, political influences over the FCC have left some observers to speculate over motives.[140] Evidence of religiously motivated complaints found its way into the political arena a few years ago, when members of the White House and a soon-to-be presidential candidate urged President Reagan to sanction harsh penalties, such as license revocations, in an attempt to scare broadcasters and align the Republican Party with the religious groups.[141]More recently, some politicians have been accused of promoting broadcast regulation with the intent to gain favor among those that financially support their campaigns.[142] As of the date of this writing, President Bush supported the recent FCC enforcements,[143] while Howard Stern's affiliation and support for presidential candidate John Kerry suggested that Mr. Kerry held an alternate position.[144] Once again, as with religious influences, political influences may suggest that complaints submitted by the public reflect an interest other than that of promoting the welfare of children.[145]

The FCC, Supreme Court and public undoubtedly play important roles in broadcast regulation. In ascertaining which actually decides what material is indecent, and arguably detrimental to children, appears to be ambiguous. However, based on recent congressional proposals regarding enforcement provisions applicable to Section 1464, in the future many of these influential figures may be obsolete in regard to regulating broadcast media.

Broadcasters Take Content into Their Own Hands

Due to the lack of precedent in broadcast regulation, broadcasters were once again blind-sighted by the recent uproar of governmental interference.[146] In the past, although the FCC issued several threats and spoke of drastic measures,[147] not until recently has it implemented such severe sanctions.[148] By passing the current proposed legislation, broadcasters will be unconstitutionally forced to engage in self-censorship. This would not only affect their rights to free speech, but the rights of others as well.

Proposed Legislation

Legislative activity surrounding broadcast regulation began early this year.[149] In response to a "four letter" curse word uttered by musician Bono at the 2003 Golden Globes,[150] Congress introduced legislation on January 15, 2004 that would specify eight words as profane and order the FCC to classify them as such.[151] Initially, the FCC concluded that because the expletive was used as an adjective or excited utterance, it was not indecent or obscene.[152] Due to significant uproar, the FCC reversed its holding,[153] finding any use of the prohibited words under Section 1464 indecent and subject to penalties.[154]

Following several alleged indecent broadcasts,[155] including the exposure of Janet Jackson's breast at the

Super Bowl[156] and several Howard Stern broadcasts,[157] the House passed legislation calling for increased fines. There are similar proposals currently in the Senate. Both the House and Senate called their versions of the legislation the "Broadcast Decency Enforcement Act of 2004 (BDEA)."[158] Proposed amendments are aimed at Section 503(b)(2), the enforcement provisions of Section 1464,[159] thus leaving the substantive law unchanged if the legislation is passed. Contained in this proposed legislation is a harsh attempt by Congress to clear the airwaves of what it deems indecent through severe penalties. First, the statute calls for time restraints that would make the FCC determine whether a broadcast was indecent within 180 days and to either dismiss the complaint or issue a forfeiture order 90 days thereafter.[160] Second, BDEA includes the highly publicized[161] fine increases. The legislation calls for an increase in fines from $27,500 to a maximum of $500,000 for airing obscene, indecent or profane material,[162] not exceeding a total of $3,000,000 within a 24-hour period.[163] In addition, fines for entertainers or "non-licensees" who willfully or intentionally violate Section 1464 will increase from $11,000 (after a warning) up to $500,000 (without the need for a warning).[164] The BDEA also includes provisions instructing the FCC to take factors into consideration, such as the broadcaster's ability to pay[165] and when increasing fines, talking into consideration past violations and the specifics of the audience.[166]

Relevant to these proposed amendments are the growing trends of the FCC to fine each separate incident[167] of indecent broadcasts, as well as the imminent threat to utilize license revocation as a penalty for serious violations.[168] Both provisions are included in the BDEA.[169] Most concerning is a "three-strike" provision that directs the FCC to hold a mandatory license revocation proceeding after finding a broadcaster guilty of violating Section 1464 three or more times.[170]

The Government's Interest or the Public's Interest?

The FCC's latest trend of excessive regulation leaves the burning question of whose interest the government is trying to protect. The government initially took control over the airwaves in order to ensure public access to the most diverse information.[171] Over time, it appears that the idea of the "public" has been reduced to a definitive portion of society, namely children. The government attempts to justify the constitutionality of this heightened regulation with the compelling interest of safeguarding youth from what it deems indecent.

License revocation is at the forefront of the FCC's zero tolerance campaign.[172] Although the harsh fine increases will affect public personalities such as Howard Stern,[173] they will continue to do little for the large executive broadcasters who build such fines into their costs of business.[174] Alternatively, license revocation, a sanction the FCC has yet to administer,[175] provides a true threat to broadcasters. Well aware that obtaining a license is a privilege, broadcasters will not jeopardize their livelihoods with that risk. This financially deadly risk, combined with the subjective nature of Section 1464, has driven several broadcasters to adopt the government's zero tolerance standards.[176] Assuming this role, broadcasters have already discontinued broadcasts,[177] fired radio personalities,[178] and threatened entertainers with personal fines.[179] The FCC even managed to coerce entertainers to turn each other over to the government.[180] Recent actions by a few well-known broadcasters[181] are seemingly paving the road, and perhaps for the first time, setting a precedent in broadcast regulation.

This "Revocation Scare" has spread like wildfire. In late summer, it appeared that each morning the FCC announced its next target. To many people's surprise, the FCC set its regulating eyes on programming that is both generally enjoyed by mothers[182] and often considered educational.[183] Seemingly, with the rise of "Reality Television," the FCC now has a new beast to tackle: unscripted television.[184]

The government is aware that it already achieved its goal without revoking a single license, thus avoiding any constitutional challenges. Legislation that forbids broadcasters and entertainers from expressing themselves is inherently unconstitutional.[185] A true balance between preserving the First Amendment rights of the public and setting indecency standards cannot be achieved through severe financial threats. Judicial scrutiny demands regulation that is narrowly tailored, so that it accomplishes the state's compelling interest by the least restrictive means.[186] Jeopardizing a citizen's freedom of speech, through forced self-censorship and possible loss of livelihood, cannot pass constitutional muster.

Conclusion

The airwaves are owned by the public and regulated by the government. With current legislation passed in the House, pending in the Senate and supported by the President, the government has won the war without firing a shot. The FCC has taken on the role of puppeteer maneuvering the public by holding out threats of revocations and severe fines. With this power, what will be left to the public? This question is hard to answer. At the same time, the question of who decides can be resolved with one clear resounding answer: the government.

Endnotes

1. *See* Censorship and Scandals, *Lucy's Pregnancy*, *available at* http://www.tvacres.com/censorship_lucy.htm ("When the character Lucy Ricardo (Lucille Ball) was pregnant, the censors would not let the word "pregnant" be used on the air. Instead, they used "Expecting.").
2. According to a study released recently by the Henry J. Kaiser Family Foundation, . . . one of seven shows on U.S. television features sexual intercourse in the plot-line, as opposed to one out of 14 shows four years ago. . . . Two-thirds of all shows from 7:00 a.m. to 11:00 p.m. have some sexual content. . . . Four years ago, the figure was only half of that. Leah McLaren, *Big Bad* Love, (Feb. 8, 2003), *available at* http://www.barelycooking.com/News__Barely_Cooking_Televisi/Globe___Mail/globe___mail.html.
3. *See* National Broadcasting Company, *available at* http://www.museum.tv/archives/etv/N/htmlN/nationalbroa/nationalbroa.htm (detailing the formation of NBC).
4. *See NAB: The First 75 Years . . . Looking back at our years of service*, *available at* http://www.nab.org/about/timeline.asp (explaining that the broadcast was received by "an audience of more than 11 million and influencing millions more to buy radios").
5. *See id.* (noting in 1927 "[t]elevision is broadcast for the first time, by wire from New York to Washington, DC., with only fifty scanning lines").
6. 47 U.S.C §§ 81–83 (1927), *repealed by* Communications Act of 1934, 47 U.S.C. §§ 151–613 (2004).
7. *See FCC v. Pottsville Broadcasting Co*., 309 U.S. 134, 137 (1940) ("By this Act Congress, in order to protect national interest involved in the new and far-reaching science of broadcasting, formulated a unified and comprehensive regulatory system for the industry.").
8. *See* Thomas W. Hazlett & David W. Sosa, *"Chilling" the Internet? Lessons from FCC Regulation of Radio Broadcasting*, 4 MICH. TELECOMM. TECH. L. REV. 35, 41 (1998) (stating "[t]he 1927 Radio Act created the Federal Radio Commission. . . .").
9. *See FCC v. Pottsville Broadcasting Co*., 309 U.S. at 137 ("Congress moved under the spur of widespread fear that in the absence of governmental control the public interest might be subordinated to monopolistic domination in the broadcasting field. To avoid this Congress provided for a system of permits and licenses."); *see also* Wayne Overback & Rick D. Pullen, *Major Principles in Media Law,* Holt, Rinehart and Winston, 248 (1982) (discussing the stated goals for the 1934 Act).
10. Unlike print media, broadcast media, due to the scarcity of airwaves, is not completely protected by the First Amendment. *Compare Miami Herald v. Tornillo*, 418 U.S. 241, 258 (1974) (concluding that the government does not have the right to control or limit the number of newspapers created because it would be limiting speech), *with* Charles D. Ferris & Terrence J. Leahy, *Red Lions, Tigers and Bears; Broadcast Content Regulation and the First Amendment*, 38 CATH. U. L. REV. 299, 310–11 (1989) ("The Federal Radio Commission, the FCC's predecessor agency, took the position that it was entitled to examine a broadcaster's past performance and program content when considering whether to renew the license.").
11. *See* Seth T. Goldsamt, *"Crucified By the FCC"? Howard Stern, the FCC, and Selective Prosecution*, 28 COLUM. J.L. & SOC. PROBS. 203, 206–07 (1995) (discussing the necessity for creating the Communication Act, stating that Congress was "[d]issatisfied with radio regulation and sens[ed] that the FRC required broader authority as well as a separate administrative staff").
12. 47 U.S.C. §§ 151–613 (2004).
13. *See* Federal Communications Commission, *available at* http://www.museum.tv/archives/etv/F/htmlF/federalcommu/federalcommu.htm (providing that Title I of the 1934 Act described the formation of the FCC).
14. *See* 47 U.S.C. § 303(c) (2004) (providing that the Commission's duties include, "assign[ing] bands of frequencies to the various classes of stations, and assign[ing] frequencies for each individual station and determine[ing] the power which each station shall use and the time which it may operate").
15. 47 U.S.C. § 303(g) (2004).
16. *See, e.g*., *FCC v. Pottsville Broadcasting Co*., 309 U.S. 134, 136–37 (1940) (positing "[w]e are called upon to ascertain and enforce the spheres of authority which Congress has given to the Commission and the courts, respectively, through its scheme for the regulation of radio broadcasting in the Communications Act of 1934"); *Federal Communications Comm'n v. Sanders Radio Station*, 309 U.S. 470 (1941) (discussing the same); *National Broadcasting Co., Inc. v. U.S.*, 319 U.S. 190 (1943) (discussing the same).
17. 319 U.S. 190 (1943).
18. *Id.* at 216 (clarifying that the FCC has a duty to use certain criteria when determining which broadcasters may or may not obtain a license); *see also* Donald E. Lively, *Modern Media and the First Amendment: Rediscovering Freedom of the Press*, 67 WASH. L. REV. 599, 602 (1992) (discussing the 1934 Act, "[i]t thus, determined that the Federal Communications Commission (FCC) not only could direct traffic but could take into account its composition").
19. *See National Broadcasting Co., Inc*., 319 U.S. at 217 (pointing out that the public's interest has to be a criterion in the licensing process); *see also Federal Communications Comm'n v. Sanders Radio Station*, 309 U.S. at 475 ("An important element of public interest and convenience affecting the issue of a license is the ability of the licensee to render the best practicable service to the community reached by his broadcasts.").
20. *See NAB: The First 75 Years . . . Looking back at our years of service*, *available at* http://www.nab.org/about/timeline.asp (including the Blue Book published in 1946).
21. *See* 18 U.S.C. § 1464 (2004).
22. *Id.*
23. *Id.* ("Whoever utters any obscene, indecent, or profane language by means of radio communication shall be fined under this title or imprisoned not more than two years, or both.").
24. *See* 47 U.S.C. §§ 312(a)(6), 503(b)(1)(D).
25. *See, e.g., Red Lion Broadcasting Co. v. FCC*, 395 U.S. 367, 388 (1969) (confirming the importance of public interest in broadcast regulation and placing that paramount to the editorial rights of broadcasters).
26. 438 U.S. 726 (1978).
27. *See id*. at 729 ("This case requires that we decide whether the Federal Communications Commission has any power to regulate a radio broadcast that is indecent but not obscene.").
28. *Id*.
29. *Id.* at 726.
30. *Id*. at 732.
31. *Id*. at 748–49 (focusing on the fact that the broadcast was aired at 2:00 p.m. and was heard by complainant and his son).
32. *See id*. at 749–50 (justifying governmental regulation by emphasizing the importance of aiding parental supervision within the home).
33. The Court has upheld this definition of indecency in subsequent cases. *See, e.g.,* Action for Children's Television (ACT), 852 F. 2d 1332 (D.C. Cir. 1988) (concluding that the FCC may regulate indecency in broadcasting); *Reno v. ACLU*, 521 U.S. 844 (1997) (invalidating indecency standards for the Internet, yet upholding indecency standards for broadcasting).

34. *See* Robert Corn-Revere, *Indecency Wars Continue As FCC Issues Policy, Levies Fines, available at* http://www.mediainstitute.org/ONLINE/FAM2002/BCTV_A.html ("Despite the many mysteries of the FCC's indecency policy, one thing seems certain—the controversy will continue. During 2001 and 2002 there was increasing pressure for expanded use of FCC enforcement authority.").

35. *See Pacifica*, 438 U.S. at 739–40 (differentiating indecent speech from obscene speech by explaining that indecent speech does not arouse the same prurient interests).

36. 1) [A]n average person, applying contemporary community standards, must find that the material, as a whole, appeals to the prurient interest; 2) the material must depict or describe, in a patently offensive way, sexual conduct specifically defined by applicable law; and 3) the material, taken as a whole, must lack serious literally, artistic, political, or scientific value.

    See Miller v. California, 413 U.S. 15 (1973) (setting forth a three-prong test that needed to be met for speech to be considered obscene, thus not constitutionally protected).

37. *See* Emily Hagmann, *FCC Defines the Indefinable: Indecency*, 25 NEWS MEDIA & LAW 24 (Spring 2001), *available at* http://www.rcfp.org/news/mag/25-2/bct-indecenc.html ("The U.S. Supreme Court said because indecent speech is protected under the First Amendment, any regulation must be narrowly tailored to further a compelling government interest."); *see also* 47 U.S.C. § 326 (2004), (providing in part, ". . . no regulation or condition shall be promulgated or fixed by the Commission which shall interfere with the right of free speech by means of radio communication"); *see* Goldsamt, *supra*, note 11, at 210-11 ("Congress, however, has denied the FCC the power to censor the airwaves.").

38. *See Pacifica*, 438 U.S. at 731 n.2 (emphasizing "Children have access to radios and in many cases are unsupervised by parents and radio receivers are in the home, a place where people's privacy interest is entitled to extra deference"); *see Action For Children's Television v. FCC*, 827 F. Supp. 8 (D.D.C. 1993) (*discussing FCC v. Pacifica Foundation*, 438 U.S. 726, 749–50 (1978)) ("[T]he Supreme Court found that the government's interest in protecting unsupervised children from indecent broadcasting allowed the FCC to limit indecent broadcasts to those times of day when such an audience would be in low attendance.").

39. *See* Hagmann, *supra* note 37 ("For most of the next decade, the FCC regarded indecency as the repetitive broadcast of the 'seven dirty words.'"); *see* John Crigler & William J. Byrnes, *Decency Redux, The Curious History of the New FCC Broadcast Indecency Policy*, 38 CATH. U. L. REV. 329, 330 (1989) (discussing the same).

40. *See Infinity Broadcasting Corp*., 3 F.C.C.R. 930 (1987) (stating "[n]o actions were taken against the broadcast licensees between 1975 and 1987").

41. *See* In the Matter of Deregulation of Radio, Deregulation of Radio: Report and Order, 84 F.C.C.2d 968 (1981); *see also* 84 F.C.C.2d at 971 (applying the same policy to television broadcasters three years later).

42. *See* Hazlett & Sosa, *supra* note 8, at 51; *see also* Anastasia Bednarski, *From Diversity to Duplication: Mega-Mergers and the Failure of the Marketplace Model Under the Telecommunications Act of 1996*, 55 FED. COMM. L. J. 273, 279 (2003) ("Beginning in the late 1970's, the Commission started proposing a shift away from the trusteeship model for radio regulation, and began using an economic/marketplace model for broadcast regulation in 1981.").

43. *See* Hazlett & Sosa, *supra* note 8, at 52 (stating that these changes were made to "achieve public interest goals"); *see also* Bednarski, *supra* note 42, at 280 (discussing the same).

44. *See* Federal Communications Commission, *available at* http://www.tv./archives/etv/F/htmlF/federalcommu/federalcommu.htm ("Reliance on the marketplace rationale began under Chairman Charles D. Ferris (1977-81), when the FCC embraced a new perspective on regulation and began licensing thousands of new stations in an effort to replace behavioral regulation with forces of competition.").

45. *See* Hazlett & Sosa, *supra* note 8, at 51.

46. *See* Crigler & Byrnes, *supra* note 39, at 331 ("In the fall of 1986, everything began to change, although perhaps no one and certainly not the broadcasters who were the unwitting agents of the change, had a clear idea what form the changes would ultimately take.").

47. Inquires followed an increase in the use of profane words and sexual references in lyrics and broadcasts. *See, e.g.,* The Regents of the Univ. of Cal., 2 F.C.C.R. 2703 (1987) (dealing with words to a song that suggested or intended to elicit listeners to engage in various sexual acts); In the Matter of David Hildebrand, F.C.C. 87-142 (adopted Apr. 16, 1987) (finding that amateur radio was held to the same standards found in *Pacifica*, after citing that several of the words used in the broadcast were the same as those found indecent in *Pacifica*); *Pacifica Foundation, Inc.*, Memorandum Opinion and Order, F.C.C. 87-138 (adopted Apr. 16, 1987) (citing portions from the play "Jerker" which included descriptions of "explicit descriptions of sexual encounters").

48. 3 F.C.C.R. 930 (1987).

49. *See* Crigler & Byrnes, *supra* note 39, at 334 (discussing that the complaints the FCC was concerned with contained provocative discussions and sexual material, both explicit and implied).

50. *Compare* In re Infinity Broadcasting Corp., 3 F.C.C.R. 930, (1987) (explaining that material is indecent if it "describes, in terms patently offensive as measured by contemporary community standards for the broadcast medium, sexual or excretory activities or organs, when there is a reasonable risk that children may be in the audience"), *and supra* note 36 and accompanying text; *see also* New Indecency Enforcement Standards To Be Applied to All Broadcasts and Amateur Radio Licensees, 2 F.C.C.R. 2726 (released April 29, 1987) ("Prior to the Commission's April 16 actions, the Commission had limited its enforcement efforts to the specific material involved in *Pacifica*, that is, to seven particular words that were broadcast in a George Carlin monologue.").

51. *See* 3 F.C.C.R. 930 (holding by the Commission "that the licensee had broadcast indecent material on the particular programs in question, at a time when there was a reasonable risk of children in the audience").

52. New Indecency Enforcement Standards To Be Applied to All Broadcasts and Amateur Radio Licensees, 2 F.C.C.R. 2726 (released April 29, 1987) ("However, because prior rulings, including some involving the Howard Stern program, may have indicated that avoidance of the repetitive use of the seven particular words at issue in *Pacifica* prior to 10:00 p.m. would make the broadcast nonactionable, the Commission limited the sanction to a warning.").

53. *See id*. ("The Commission hereby notifies all other broadcasters and amateur radio licensees that violations of the Commission's new standards occurring after the publication of this Public Notice will subject them to a full range of sanctions available to the Commission.").

54. 852 F.2d 1332 (D.C. Cir. 1988), *vacated, remanded*, 932 F.2d 1504 (D.C. Cir. 1991), *cert. denied*, 112 S. Ct. 1282 (1992).

55. *Id*. (*ACT I*); *Action for Children's Television v. FCC* (*ACT II*), 932 F.2d 1504 (D.C. Cir. 1991), *cert. denied*, 112 S. Ct. 1282 (1992); *Action for Children's Television v. FCC* (*ACT III*), 58 F.3d 654 (D.C. Cir. 1995) *cert. denied*, 116 S. Ct. 701 (1996).

56. *See* Crigler & Byrnes, *supra* note 39, at 337, fn 46 (stating, "[p]rior to the 1987 indecency initiative, the Commission fol-

lowed an informal policy of permitting a broadcaster to air some of the words at issue in *Pacifica* at times after 10:00 p.m.").

57. *See* Goldsamt, *supra* note 11, at 212 ("Moreover, the FCC moved its 'safe-harbor' rule, which allowed stations to broadcast indecent material during certain times of the day, to the hours between midnight to 6:00 a.m. in order to channel such material towards adults.").

58. *See ACT I*, 852 F.2d at 1341 (noting the FCC failed to "consider fairly and fully what time lines should be drawn" when creating the safe harbor hours).

59. *Id.* at 1344.

60. Making Appropriations for the Departments of Commerce, Justice, and State, the Judiciary and Related Agencies for the Fiscal Year Ending September 30, 1989, and for other Purposes, Pub. L. No. 100-459, Section 608, 102 Stat. 2186, 2228 (1988).

61. *ACT II*, 932 F.2d 1504, 1509 (D.C. Cir. 1991), *cert. denied*, 112 S. Ct. 1282 (1992).

62. *Id*. at 1510 (explaining the correct standard calls for a compelling governmental interest that is narrowly drawn).

63. Pub. L. No. 102-356, 106 Stat. 949 (1992).

64. *Id.*

65. *ACT III*, 58 F.3d 654, 669–70 (D.C. Cir. 1995) *cert. denied*, 116 S. Ct. 701 (1996).

66. *See* 60 Fed. Reg. 44439 (August 28, 1995).

67. In the Matter of Industry Guidance On the Commission's Case Law Interpreting 18 U.S.C. § 1464 and Enforcement Policies Regarding Broadcast Indecency, EB-00-IH-0089 (adopted March 14, 2001) ("The court had concluded, however, that the less restrictive 10:00 p.m. to 6:00 a.m. "safe harbor" had been justified as a properly tailored means of vindicating the government's compelling interest in the welfare of the children. . . .").

68. *See* Evergreen Media Corp., 6 F.C.C.R. 3708 (1989).

69. *See id.*; *see also* Hagmann, *supra* note 37, at 24 (listing examples of the cited broadcasts, including "a parody of Neil Diamond's 'September Morn' entitled 'Kiddie Porn' [and] a joke by a caller from a gay bar with the punch line, 'May I push your stool in for you?'").

70. 832 F. Supp. 1179 (N.D. Ill. 1993).

71. *See* Hagmann, *supra* note 37 (stating the broadcaster "refused to pay the fine because it said the broadcasts were not indecent if viewed in the full context of the commentary. . . .[and also] challeng[ed] the agency's legal authority to enforce indecency standards").

72. *Id.*

73. *See* Milagros Rivera-Sanchez, *How Far Is Too Far? The Line Between "Offensive" and "Indecent" Speech*, 49 FED. COMM. L.J. 327, 328 (1997) ("As a part of that settlement [referring to *Evergreen*], the Commission agreed to issue enforcement guidelines to better help broadcasters identify material that is potentially indecent.").

74. *Id.*

75. *See* Hagmann, *supra* note 37, at 24 (offering an explanation for the delay by the FCC stating, " . . . the process for issuing the guidelines took seven years because agency officials had to evaluate them and add comments").

76. *Id.* (discussing the failure of the FCC to publish timely guidelines, yet the ability of the FCC to continue issuing fines without them).

77. *See* In the Matter of Industry Guidance On the Commission's Case Law Interpreting 18 U.S.C. § 1464 and Enforcement Policies Regarding Broadcast Indecency, EB-00-IH-0089 (adopted March 14, 2001) (putting forth a two-step analysis, namely, "[f]irst, the material alleged to be indecent must fall within the subject matter scope of our indecency definition . . . [and] [s]econd, the broadcast must be *patently offensive* as measured by contemporary community standards for the medium broadcast").

78. *Id*. (including in Section III of the Policy Statement " . . . a comparison of selected rulings intended to illustrate the various factors that have proved significant in resolving indecency complaints").

79. *Id.* ("In determining whether material is patently offensive, the *full context* in which the material appeared is critically important.").

80. *Id.*

81. *See* Crigler & Byrnes, *supra* note 39, at 342 (stating that the guidelines offered by the Commission still left broadcasters "constantly at a risk").

82. *See* Richard E. Wiley & Rosemary C. Harold, *Communications Law 2003: Changes and Challenges*, 773 PLI/Pat 275, 409 (2003) ("In April 2003, the Commission initiated an enforcement action that is widely viewed as a harbinger of change in its approach with regard to indecent broadcasts.").

83. *See* Infinity Broadcasting Operations Inc. (WKRK-FM), 18 F.C.C.R. 6915 (2003) (concluding that the broadcaster may be fined up to $27,500, the maximum amount available to the FCC for "willfully broadcasting indecent language"); *see* Infinity Broadcasting Operations Inc. (WKRK-FM), (WNEW(FM), et al.), EB-02-IH-0685, F.C.C. 03-234 (released Oct. 2, 2003) (describing the broadcast from the "Opie & Anthony Show" as a contest which called for couples to partake in sexual activities in public places in order to win prizes).

84. *See* Wiley & Harold, *supra* note 82, at 410 (discussing that the New York case was warned with "stiffer fines and the possibility of license revocation").

85. *Id.*

86. *Id.* at 407.

87. *Id.*

88. *Id.* at 407–08.

89. *See* Federal Communications Commission, *supra* note 13, (discussing the formation of the FCC under Title I of the 1934 Act).

90. *See id.* (discussing the formation of the FCC under Title I of the 1934 Act).

91. *See id.* (illustrating that §§ 303 to 307 govern the powers given to the FCC, while § 326 forbids the FCC to engage in censorship of the airwaves).

92. *See* Jacob T. Rigney, *Avoiding Slim Reasoning and Shady Results: A Proposal for Indecency and Obscenity Regulation in Radio and Broadcast Television*, 55 FED. COMM. L.J. 297, 314 (2003) (claiming that the FCC enforcement procedure begins with a public complaint).

93. *See* Rivera-Sanchez, *supra* note 73, at 330–31 ("A defective complaint is one that fails to include a transcript or tape of the program, station's call letters, and time and date of broadcast.").

94. *See EB-Obscene, Profane & Indecent Broadcasts*, *available at* http://fcc.gov/eb/broadcast/obscind.html (stating that the Enforcement Bureau was created on November 8, 1999 to assist the FCC).

95. *See* Rigney, *supra* note 92, at 315 (stating that the complaint is passed to the FCC's Enforcement Bureau for further analysis).

96. *Id.* (enumerating the ability of the Enforcement Bureau to deny complaints lacking the requisite indecent material).

97. *See id.* (noting that broadcasters are unaware of possible liability until they receive the LOI).

98. *See Action For Children's Television v. FCC*, 827 F. Supp. 4, 6 (D.D.C. 1993) ("The LOI is a request for additional information about the broadcasts in question . . . ").

99. *Id.* ("The staff uses LOIs in order to obtain information and afford licensees an opportunity to respond to allegations of violations prior to the decision on whether a violation occurred.").

100. *See* Rigney, *supra* note 92, and accompanying text.

101. *Action for Children's Television*, 827 F. Supp. at 7 (defining NAL as a "preliminary notice issued by the Commission, or by Bureaus/Offices under delegated authority, alleging the violation of the Commission's rules and requesting payment from the alleged violator" (quoting SOF Exh. 1, FCC Directive 1157.1, at 2)).

102. *Id.*

103. *See* Rigney, *supra* note 92, at 315 (stating that a radio or television station may respond to an NAL).

104. *Action for Children's Television*, 827 F. Supp. at 7.

105. *Id.*

106. *See* Rigney, *supra* note 92, at 315 (explaining that "[t]he fine is still flexible . . . in that the Commission or its staff may consider mitigating circumstances and reduce the amount of the fine").

107. *Id.* at 316.

108. *See Action for Children's Television*, 827 F. Supp. at 7 ("If a broadcaster still has not paid the forfeiture after receiving three dunning letters, or has indicated in writing its intent not to pay, the FCC refers the matter to the United States Attorney for initiation of a collection action in the United States District Court.").

109. *See* Rigney, *supra* note 92, at 316 (describing the judicial process as beginning in the trial court with a complete re-adjudication, with the potential for appeal to the appellate court and the possibility of reaching the Supreme Court if it grants certiorari).

110. *See Action For Children's Television*, 827 F. Supp. at 5 (putting forth arguments by plaintiff broadcasters that FCC's enforcement procedure denies them prompt judicial review); *see* Rigney, *supra* note 92, at 320 (finding "the legal fees involved in challenging the indecency determination quickly exceed the fine itself in most cases").

111. *See* Joe Flint, *Broadcasters Argue Indecency Enforcement Takes Too Long,* Broadcasting and Cable, May 17, 1993, at 45 (putting forth that the average time is 14 months for the FCC to respond to an appealed NAL, another 11 months to get the forfeiture order issued, 15 months to report the case to the Justice Department when the broadcaster chooses not to pay and up to three years for a case to make it to court); *see also* Rigney, *supra* note 106, and accompanying text.

112. *See* Goldsamt, *supra* note 11, at 206 (suggesting that the FCC should take a more "pro-active policy, in which it investigates matters on its own initiative").

113. *Id.* at 251.

114. *See Action For Children's Television*, 827 F. Supp. at 8 (discussing the lack of "checks on the duration of the forfeiture process" leaving broadcasters helpless in securing a prompt judicial review).

115. *See* Lively, *supra* note 18, at 602 ("Nearly a decade after the Communications Act of 1934 was enacted, the Supreme Court recounted broadcasting's chaotic formative years and identified what is to be considered to be certain basic facts about radio as a means of communication—its facilities are limited. . . .").

116. *See* Charles D. Ferris & Terrence J. Leahy, *Red Lions, Tigers and Bears; Broadcast Content Regulation and the First* Amendment, 38 CATH. U. L. REV. 299, 309 (1989) ("Spectrum scarcity—the shortage of electromagnetic frequencies available for public use—has served as the traditional basis for permitting a relatively extensive degree of government oversight of broadcast content.").

117. *Id.*

118. *See Sable Communications v. FCC*, 492 U.S. 115, 126 (1989) (concluding that indecent speech is protected by the constitution).

119. *See* Hagmann, *supra* note 37, at 24 (the appropriate judicial standard for indecent speech is when the regulation "must be narrowly tailored to further a compelling governmental interest").

120. *See supra* note 66 and accompanying text.

121. *See* Hagmann, *supra* note 37, at 24 ("During the safe harbor zone, which runs from 10:00 p.m. to 6:00 a.m., the FCC does not regulate content for indecency.").

122. In the Matter of Industry Guidance On the Commission's Case Law Interpreting 18 U.S.C. § 1464 and Enforcement Policies Regarding Broadcast Indecency, EB-00-IH-0089 (Adopted Mar. 14, 2001) (writing in a separate statement, Commissioner Susan Ness recognized the FCC's duty to deal with the following two competing fundamental interests: "(1) to ensure that the airwaves are free of indecent programming material during the prescribed hours when children are most likely to be in the audience; and (2) to respect the First Amendment rights of broadcasters regarding program content").

123. *See supra* note 91, and accompanying text.

124. *See* Goldsamt, *supra* note 11, at 248 (noting that the FCC may be failing to meet the goal of tending to the public's interest by regulating on the basis of personal preferences).

125. *See* Parents Television Council-Letters to the Editor, *available at* http://www.parentstv.org/PTC/letters/main.asp (providing letters from the public regarding indecent programming, "I feel that the people like myself who do not have children are being ignored," versus "There are those in society who want to trample over our rights to innocence. They want to force us to see and hear things that do not make us any better, but worse.").

126. *See* Ashutosh Bhagwat, *What If I Want My Kids To Watch Pornography?: Protecting Children From "Indecent" Speech*, 11 WM. & MARY BILL RTS. J. 671 (2003) ("A number of laws regulating indecent speech have been passed in recent years, and when challenged, the government has defended these regulations on the ground that the State has a compelling interest in the protection of children from harmful materials.").

127. *See Ginsberg v. New York*, 390 U.S. 629, 636–39 (1968) (placing a ban on the sale of pornographic materials to minors, defined as under the age of 17); *contra Bolger v. Youngs Drug Products Corp.*, 463 U.S. 60 (1983) (holding that the need to protect children was not sufficient to overcome the protected rights in commercial speech, invalidating a prohibition of contraceptive advertising).

128. *Ginsberg*, 390 U.S. at 639.

129. The FCC created the Parents Television Council, which has a web site that makes it easy to register a complaint. On the site, the FCC has listed programs that it has found to be indecent, and it encourages parents to click on a link to send in complaints. *See* Frank Ahrens, *Nasty Language on Live TV Renews Old Debate*, *available at* http://www.washingtonpost.com/ac2/wp-dyn/A61109-2003Dec12?language=printer ("Members of the Parents Television Council, a group that monitors television broadcasts . . . have filed more than 85,000 complaints about broadcast indecency and obscenity at the FCC this year.").

130. *See* Ashutosh Bhagwat, *supra* note 126, at 671, 677, ("While underlying [the interest in protecting children], there is a deep ambiguity regarding the precise nature of the government's legitimate objectives in this area . . . the Court never questioned whether the *Ginsberg* decision was correct in identifying a pur-

ported independent governmental interest in controlling minors' access to sexual materials, regardless of the wishes of their parents.").

131. *Id.* at 674 ("[T]he existence of such an independent interest is highly relevant to the constitutionality of statutes that directly censor indecent speech . . . the controversy and uncertainty in this area highlight a greater problem with the Supreme Court's constitutional jurisprudence: the lack of any coherent theory or approach towards evaluating governmental interests.").

132. *See, e.g., Action for Children's Television v. FCC*, 58 F.3d 654 (D.C. Cir. 1995) (discussing the conflicting nature of governmental supervision and the paramount right of parents to control what their children are exposed to), *United States v. Playboy Entertainment Group*, 529 U.S. 803 (2003) (discussing the same).

133. *See* Bhagwat, *supra* note 126, at 708 (pointing out that the government has not been required to prove the need for independent governmental supervision).

134. *See* Goldsamt, *supra* note 11, at 247 (positing the idea that complaints by the Reverend's followers are not primarily in the interest of protecting children, as the followers obey their own distinct religious and political agenda. Further adding that the Reverend admitted that his goal is "to promote the biblical ethic of decency in the media").

135. *See* Goldsamt, *supra* note 11, at 245 ("The Reverend Donald Wildmon is another crusader against Stern. Wildmon serves as head of the American Family Association ("AFA"), a fundamental religious organization. . . ."); *see also* Crigler & Byrnes, *supra* note 39 , at 344–45 (mentioning other organizations run by Reverend Wildmon, such as the National Federation of Decency and Morality in the Media).

136. *See* Crigler & Byrnes, *supra* note 39, at 344 (stating that Reverend Wildmon initiated protests by picketing the White House and starting a letter-writing campaign as a reaction to the re-nomination by the president of FCC Chairman Mark Fowler, a leader the Reverend felt did nothing to regulate the airwaves for indecency).

137. *Id.* at 345 (including a letter written by The National Decency Forum to the FCC chairman stating, "I agree that the citizens have not been bringing you enough complaints and I will take action to publicize the need for more documented complaints").

138. *Id.* at 345–46.

139. *See* Larry McShane, *In the Mid-80's, Howard Stern and Robin Quivers had one major concern: Staying on the air*, Miami Herald, Herald.com (Mar. 18, 2004), *available at* http://miami.com/mld/miamiherald/8220754.htm?template=conentModules/printsto (discussing Stern's position, "Stern rants daily against President Bush, bashes FCC Chairman Michael Powell and condemns the "religious right," charging they want to put him out of business"); *see also* Goldsamt, *supra* note 11, at 247 (exploring the possibility of a selective prosecution claim for Howard Stern, posited "[i]f attributable to the government under such a theory, all of the possible motives of Stern's complainants—economic, political, and religious—would render the FCC's actions against Stern illegal").

140. *See* Michael C. Dorf, *Does the First Amendment Protect Janet Jackson and Justin Timberlake*, *available at* http://www.cnn.com/2004/LAW/02/04/findlaw.analysis.dorf.jackson.indecency ("Faster than you can say 'election year,' the breast seen around the world has given rise to federal probes of the Super Bowl halftime show.").

141. *See* Goldsamt, *supra* note 11, at 246 (offering statements by Patrick Buchanan, former White House Communications Director, discussing the political benefits of President Reagan joining the National Council of Churches in prohibiting indecent broadcasts); *see also* Crigler & Brynes, *supra* note 39, at 347 (discussing the same).

142. *See* Michael Ventre, *Politicians take booby prize in race for broadcast decency*, *available at* http://www.msnbc.msn.com/id./4388078 (commenting on the support of regulation by one congresswoman as creating "a buzz among pious constituents and lobbyists who line her pockets with campaign contributions").

143. *See* Associated Press, *Law Makers Back Tougher Indecency Fines*, *available at* http://www.msnbc.msn.com/id/4507051/ (indicating Bush's endorsement of proposals for increasing the maximum fines for indecent broadcasts).

144. *See* McShane, *supra* note 139 (claiming Stern's "advocacy of Democratic presidential candidate John Kerry is already stealing time from Stern's more prurient duties").

145. *See* Ventre, *supra* note 142 ("The airwaves are public and standards must be created and enforced. But make no mistake, this is not about that. This is about politicians doing what they purport to be for the public good in order to serve their own interest.").

146. *See, e.g.*, McShane, *supra* note 139, (interviewing Howard Stern's co-host, who reacted to recent fines and legislation proposals, "This was practically out of left field. . . . So much has occurred in a few short weeks").

147. *See supra* note 83 and accompanying test.

148. *See, e.g.,* Rep. Walt Herger, *House Approves Broadcast Decency Enforcement Act*, *available at* http://www.gop.gov (noting that recently approved legislation from the House "puts broadcasters and performers on notice, and gives teeth to our indecency laws"); Jesse Hiestand, *Public radio firing fuels censorship debate* (Mar. 17, 2004), *available at* http://www.msnbc.msn.com/id/4551194 ("A commentator who was fired from National Public Radio's flagship station for Southern California for inadvertently allowing an obscene word to be broadcast said Wednesday that the incident has had a chilling affect on her former colleagues.").

149. *See* NAB Legislative Issue Papers, March 2004, Content Regulation/Indecency, *available at* http://www.nab.org/Newsroom/Issues/issuepapers/issuedtv.pdf ("Several high profile incidents at radio stations and on national network television have prompted several Members of Congress to introduce legislation on content regulation and indecency in early 2004.").

150. *See* In the Matter of Complaints Against Various Broadcast Licensees Regarding Their Airing of "The Golden Globe Awards" Program, EB-030IH-0110, DA 03=3045 (released Oct. 3, 2003) ("The complainants allege that the licensees named in their respective complaints aired the 'Golden Globe Awards' program, during which the performer Bono utters the phrase 'this is really, really, f**king brilliant,' or 'this is f**king great.'").

151. *Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled*, That section 1464 of title 18, United States Code, is amended

> (2) by adding at the end the following:
>
> (b) As used in this section, the term 'profane', used with respect to language, includes the words 's**t', 'p**s', 'f**k', 'c**t', 'a**hole', and the phrases 'c**k s**ker', 'mother f**ker', and 'a** hole' compound use (including hyphenated compounds) of such words and phrases with each other or with other words or phrases, and other grammatical forms of such words and phrases (including verb, adjective, gerund, participle, and infinitive forms).

H.R. 3687, 108th Congress, (Dec 8, 2003).

152. *See* In the Matter of Complaints Against Various Broadcast Licensees Regarding Their Airing of "The Golden Globe Awards" Program, EB-03-IH-0110, DA 03-3045 (released Oct. 3, 2003), at 3 (concluding that the use of an expletive such as

"f**king" 1) as an adjective or to emphasize an exclamation did not meet the first part of the indecency standard, as it did not describe or depict sexual or excretory organs or activities, 2) fleeting and isolated remarks such as this one did not warrant action by the Commission, and 3) the use of such a word did not meet the *Miller* test for obscenity, as it did not depict or describe sexual conduct.)

153. *See* In the Matter of Complaints Against Various Broadcast Licensees Regarding Their Airing of "The Golden Globe Awards" Program, EB-03-IH-0110, FCC 04-43 (released Mar. 18, 2004) (determining "given the core meaning of the 'F-word,' any use of that word or a variation, in any context, inherently has a sexual connotation, and therefore falls within the meaning of the first prong of our indecency definition" and finding fleeting broadcasts as non-actionable as "no longer good law").

154. *Id.* ("By action today, broadcasters are on clear notice, that, in the future, they will be subject to potential enforcement action for any broadcast of the 'F-word' or a variation thereof in situations as that here.").

155. *See,* Rep. Walt Herger, *House Approves Broadcast Decency Enforcement Act* (Mar. 11, 2004), *available at* http://www.gop.gov (quoting Representative Walt Herger's response to new decency legislation, "Broadcast decency is in steady decline. This year's Super Bowl halftime show was just one of many offensive incidents clogging our airwaves").

156. *See, e.g.,* Associated Press, *Lawmakers Back Tougher Indecency Fines* (Mar. 12, 2004), *available at* http://www.msnbc.msn.com/id/40507051/ (discussing congressional action, "the measure picked up momentum after the now-infamous Feb. 1 Super Bowl halftime show during which singer Justin Timberlake exposed Janet Jackson's breast to 90 million viewers"); Dorf, *supra* note 140 (describing the aftermath of Super Bowl halftime show, "[t]he deluge of subsequent viewer complaints and the general outcry have made quite clear that some substantial portion of the TV audience found the display, 'patently offensive'").

157. News Release, Commission Proposes Statutory Maximum Fine of $495,000 Against Subsidiaries of Clear Channel Communications, Inc. For Apparent Multiple Violations of Indecency Rules, (Apr. 8, 2004) (explaining that the total forfeiture represented the maximum fine of $27,500 for each of the 18 total apparent indecency violations made during the Howard Stern Show).

158. *See* Broadcast Decency Enforcement Act of 2004, S. 2056, 108th Cong. § 1 (2004) ("This Act may be cited as the 'Broadcast Decency Enforcement Act of 2004.'"); *see also* Broadcast Decency Enforcement Act of 2004, H.R. 3717, 108th Cong. § 1 (2004) (proving the same).

159. *Id.* § 2 (amending § 503(b)(2) of the 1934 Act (47 U.S.C. 503(b)(2)).

160. *See* H.R. 3717, 108th Cong. § 5 (adding 503(b)(7)(A) and (B)).

161. *See* Jonathan D. Salant, *FCC Cites Howard Stern, Bono For Indecency*, *available at* http://www.nydailynews.com/front/breaking_news/v-pfriendly/story/174895p-152318c.html (reporting, "[t]he fines are the latest in a stepped-up campaign by the FCC to crack down on indecency").

162. *See* Paul Davidson, *FCC Seeks 1.2M Fine for Fox Marriage Show* (Oct. 12, 2004), *available at* http://www.usatoday.com/money/media/2004-10-12-fox-fcc_x.htm ("The proposed fine, unanimously approved by the Federal Communications Commission, is the largest for a radio or TV broadcast. The penalty also blazes a new path by seeking the 144 independently owned Fox affiliates that aired the show. A few pre-empted it.").

163. *See* H.R. 3717, 108th Cong. § 2 (increasing fines for broadcasters).

164. *See* H.R. 3717, 108th Cong. § 4 (increasing fines for non broadcasters).

165. *See* H.R. 3717, 108th Cong. § 3.

166. *See id.*

167. *See FCC Preparing To Hit Stern Again* (Apr. 5, 2004), *available at* http://www.money.cnn.com/2004/04/05/news/fortune500/stern_fcc/index.htm ("It is said the fine will be the first one involving Stern that will hit the broadcaster with a separate fine for each indecent 'utterance' during a program."); News Release, Commission Proposes Statutory Maximum Fine of $495,000 Against Subsidiaries of Clear Channel Communications, Inc. For Apparent Multiple Violations of Indecency Rules, (Apr. 8, 2004), *available at* http://www.fcc.gov/Daily_Releases/Daily_Business/2004/db0409/DOC-245911A1.pdf (explaining the total forfeiture represented the maximum fine of $27,500 for each of the 18 total apparent indecency violations).

168. *See* Frank Ahrens, *Nasty Language on Live TV Renews Old Debate*, *available at* http://www.washingtonpost.com/ac2/wp-dyn/A61109-2003Dec12?language=printer (quoting Commissioner Copps from an interview, " 'If we send one or two of the most egregious cases to renewal hearings, we'll see it improved quite a bit,' meaning that if broadcasters are threatened with losing their license, the airwaves would be cleaned up quickly").

169. *See* H.R. 3717, 108th Cong. §§ 2, 9.

170. *See* H.R. 3717, 108th Cong. § 9.

171. *See Sanders*, *supra* note 19 and accompanying text; *supra* note 42 and accompanying text.

172. *See supra* note 169 and accompanying text.

173. *See*, Julie Hilden, *The FCC Tries to Silence Howard Stern*, (Apr. 13, 2004), *available at* http://www.howardstern.com/contact.html (discussing financial ramifications: "Howard Stern is unusual, and admirable, to resist that chill. But he may not be able to do so forever—and if he caves, it won't be his fault. It will be the fault of the government for putting more pressure on the right to speak freely than even Stern can bear."). *See Howard Stern Signs Multimillion Dollar Deal That Will Bring His Show to the Entire Nation* (Oct. 6, 2004), *available at* http://abclocal.go.com/wabc/features/entertainment/wabc_100604_entertainmentsstory_stern.html (discussing that Stern's switch to satellite radio was necessary to maintain his freedom of speech and sense of creativity).

174. *See* John D. Dingell, Subcommittee on Telecommunications and the Internet Hearing on H.R. 3717, the "Broadcast Decency Enforcement Act", (Feb. 11, 2004), *available at* http://www.house.gov/commerce_democrats/press/108st86.htm (speaking on his support for the proposed increase in fines, "while I was pleased to cosponsor your bill . . . to raise penalties for obscene and indecent broadcasts . . . it appears that these executives consider these penalties nothing more then 'lunch money'—and small cost of doing business"); *see id.* (calculating the new fines would represent .003 percent of the executive broadcasters revenues).

175. *See* Markey Statement for Broadcasting Indecency Hearing, (Feb. 11, 2004), *available at* http://www.house.gov/markey/Issues/iss_telecom_pr040211.pdf (discussing the FCC's 'unwillingness' to revoke a license prior to this legislation).

176. *See*, Tom Teepen, *Beware the soaps viewers* (Apr. 8, 2004), *available at* http://www.helenair.com ("Broadcasting executives have been called to humble themselves in congressional re-education camps and shock jocks are being replaced by Sunday school teachers.").

177. *See FCC Preparing To Hit Stern Again*, *available at* http://money.conn.com/2044/04/05/news/fortune500/stern_fcc/index.htm ("Clear Channel Communications, the nation's largest radio broadcaster, pulled Stern's radio show from its six stations that aired his syndicated program in February.").

178. *See, e.g.,* Jesse Hiestand, *Public radio firing fuels censorship debate* (Mar. 17, 2004), *available at* http://msnbc.msn.com/id/4551194/ (discussing a commentator who "was fired from Santa Monica-based KCRW-FM after a technician failed to bleep an intentional use of the "F" word during a February 29 radio commentary on knitting"); *see also Howard Stern Gets the Boot! FCC comes down hard on Clear Channel Communications*, (April 9, 2004), *available at* http://www.ideesnoires.com/stern/docs/04-04-09/Howard%20Stern%20Gets%20The%20Boot!%20(EurWeb.com).rtf ("On a 5-0 vote, the FCC issued a 'notice of apparent liability' and once Clear Channel saw what the FCC is prepared to charge them they said goodbye to Howard Stern, making his earlier suspension permanent."); *see* Associated Press, *Lawmakers back tougher indecency fines* (Mar. 12, 2004), *available at* http://www.msnbc.msn.com/id/4507051 (reporting that Clear Channel Communications, "agreed to pay a record $755,000 fine for broadcasts of a show titled 'Bubba the Love Sponge.' Clear Channel also fired the disc jockey . . . .").

179. *See* Associated Press, *Lawmakers back tougher indecency fines* (Mar. 12, 2004), *available at* http://www.msnbc.msn.com/id/4507051 ("Clear Channel Communications, the nation's largest radio station chain, announced last month that it would require disc jockeys to pay part of the indecency fines.").

180. *See* David Usborne, *Censors set sights on 'world darling' Oprah* (Apr. 2, 2004), *available at* http://www.iol.co.za/index.php?click_id=3&art_id=ct20040402194110544O160371&set_id=1 (discussing possible FCC investigation of the Oprah Winfrey Show, "Winfrey has U.S. radio shock jock Howard Stern, to blame. Stern has been under relentless Washington pressure to tone down his broadcasts and struck back by suggesting Winfrey was surely a worse offender.").

181. *See supra* note 177 and accompanying text.

182. *See, e.g.,* Chris Baker, *FCC leader to stay tuned to racy soaps* (Apr. 2, 2004), *available at* http://www.glbuzz.com/forums/index.php?showtopic=4006&st=0&#entry32124 ("Soap operas have become a potential target in the Federal Communication Commission's crackdown on broadcast indecency, according to a key official who said the programs might be too 'steamy' for daytime television."); Tom Teepen, *Beware the soaps viewers* (Apr. 8, 2004), *available at* http://www.helenair.com (reporting the same).

183. *See* Usborne, *supra* note 179, ("The crackdown on smut on America's airwaves has entered new and surprising territory after reports that less than open-minded federal regulators have turned their censorious attention to a thoroughly unexpected target—the perennially popular Oprah Winfrey Show.").

184. *See* Paul Davidson, *FCC Seeks 1.2M Fine for Fox Marriage Show* (Oct. 12, 2004), *available at* http://www.usatoday.com/money/media/2004-10-12-fox-fcc_x.htm (reporting that the FCC found scenes from the popular "reality TV" show "Married By America," depicting that bachelor and bachlorette parties were ". . . intended to pander and titillate the audience.").

185. *See* U.S. Const. amend. 1, ("Congress shall make no law abridging freedom of speech.").

186. *See supra* note 118, with accompanying text.

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The following is an excerpt from the just-released, 782 page NYSBA book, Entertainment Law, 3d Edition, Chapter Five: Entertainment on the Internet: The Evolution of Entertainment Production, Distribution, Ownership and Control in the Digital Age. *Edited by Howard Siegel, Esq., this book's nine chapters cover the principal areas of entertainment law, including "The Record Industry; Music Publishing; Television; Film; Commercial Theater; Book Publishing; Minors' Contracts; and Personal Management. The authors, from both the New York and California bars, are some of the most successful entertainment law practitioners in the country. For ordering information, see the ad on pages 70-71 in this issue.*

The Entertainment Industries' Initial Use and Present Fear of Technology

By Mark G. Tratos

You may have seen the commercial where a traveler walks into a small, out-of-the-way motel and inquires about its amenities. The desk clerk says, "We have every movie ever made available at anytime." While it was just a commercial, and to date no company has been able to deliver on that promise, digital technology and the new distribution medium, the Internet, were once viewed by the entertainment industries with much enthusiasm. They viewed the technologies as a possible way of making the immense library of recorded entertainment available to a worldwide audience. The potential was irresistible to both audiences and entertainment industries alike.

Technology made modern entertainment possible. Recording a live performance that could later be shared with thousands of new audience members through mass distribution forms the basis of the record industries, the film and television industries and, more recently, the interactive gaming industries. The broadcast entertainment businesses were ever more dependent on technology to reach as broad an audience as possible. Even the live performance industries are now the beneficiaries of technological advances. From stadium concerts to the dramatic new effects in theater and production shows, modern technology enhances the overall experience and increases the size of the available audience who can see, hear and thus enjoy the performance.

A. The Entertainment Industries' Historic Tension with New Technologies

It is new technology that often initially confronts and confounds the entertainment industries. As vanguard technologies emerge, they challenge the existing control and distribution mechanisms developed by the entertainment industries and, in turn, create potential new markets for business newcomers that challenge the established entertainment industries.

At the turn of the 19th century, for example, the American music publishing industry was controlled by a handful of successful music printers who published sheet music. By carefully controlling the printing and distribution of printed music, the publishers ensured themselves profits and controlled the public's access to the work of songwriters who were signed to exclusive long-term songwriting agreements. The printing press was an old technology but still not commonly available. Contracts tied the songwriters to but one publisher who owned by conveyance their musical copyrights. The arrangement had been successfully exploited for several decades when a new technology, the player piano, emerged to threaten the status quo. The player piano allowed a pianist's performance to be recorded as perforations on a specially prepared paper roll. When inserted into a mechanically equipped player piano, the perforations in contact with the drive mechanism caused the piano's string hammers to be depressed and struck in the same order, timing and tempo as the original performance. The new technology not only eliminated the need for a pianist; the music publishers believed it threatened to eliminate the sales of sheet music as well. Thus, the player piano became the first in the long line of new technologies that threatened one of the established entertainment businesses.

The industry's response was to assert that users of the new technology infringed the publishers' exclusive property rights by violating their copyrights. However these claims were not substantiated by the United States Supreme Court, which, in the landmark case of *White-Smith Music Publishing Co. v. Apollo Co.*,[1] sided with the proprietors of the new technology. The high court held that the perforated player piano roll was not an infringement of the publishers' printed sheet music. In reaction, the publishers lobbied for revisions to the Copyright Act, and Congress obliged with the passage of the 1909 Copyright Act.[2]

Similar challenges to new technology have been raised by the entertainment industries over the years. The film industry advanced concerns against broadcast television, and later the home video recorder.[3] The record industry asserted violation of its proprietary rights against both recording cassettes and the later digital Diamond Rio player.[4] In each instance, the entertainment industry perceived a threat to its income stream and a loss of control over its proprietarily controlled entertainment products by the new technology. In most instances, the entertainment industries initiated copyright infringement lawsuits, and when they lost the court challenges, they again sought relief from Congress through advocating amendments to the copyright laws.

Despite their new technology fears, the entertainment industries continued to grow and flourish as new technologies emerged, because the entertainment businesses co-opted the new technologies to find additional revenue sources. For example, the movie industry benefited from licensing fees for the network broadcast of motion pictures and later derived even more income from an active home video rental market even though they had initially opposed both technological developments. Despite the entertainment industries' historic apprehension of new technologies, the industries have, to date, successfully found ways of exploiting the new technologies to their benefit.

Why then do entertainment industry supporters and critics alike assert that the threat posed by computer digitization and the Internet is unlike any of the previous technological advances and, in fact, appears to be the technology that threatens the entertainment industries' very existence? Why are these technologies fundamentally different from the technological advances of the past and thus more dangerous? To understand the entertainment businesses' fear, we need a basic understanding of the new technologies. For those of you who hated your high school science classes, you may wish to skip ahead to Section C. For those of you who do not mind a lawyer's explanation of technology, read on.

B. Analog vs. Digital, Wave vs. Bits, New vs. Old Technology

The greatest change in entertainment between the 19th and 20th centuries was electrification. Gas lamps were replaced by electric lights; megaphones were made obsolete by the microphone and loud speakers; mechanically driven devices were replaced by electric motors. This electrification of the entertainment industries ultimately would lead to computer digitization and the Internet.[5] Yet initially, the use of electrical devices was viewed as entertainment-friendly technology that the industries could exploit. Why were new electronic devices perceived first as helpful tools? The answer is the audience. First, electronic devices helped reach a broader audience than was possible in live performances. Since the audience is the source of income, the larger the audience, the greater the income potential. This was the key to the film and record industries and later the radio and television broadcast businesses. Expand the size of the audience that pays for the entertainment or the number of advertisers who will pay for the privilege of access to the audience and you expand your potential income stream.

1. From Simple Communication Tools to Entertainment Delivery Devices

The initial focus of electronic communication used the flow of electricity over metal wires to communicate at a distance. It was discovered that the flow of electrons over the copper wire created a small electromagnetic field around the wire. The first telegraph devices, which allowed communication over great distances, were built to detect the flow of electricity over the wire by locating a magnetized needle near the wire. As the electric current passed through the wire, the needle would move, indicating the flow of electrons. The passage of these electrons could be controlled to intentionally be either a long or short passage of electricity, either a dot or a dash. These dots and dashes became the basis of Morse Code and helped create the widespread acceptance of the telegraph by the public in both the United States and Europe by the end of the 19th century.[6]

One of many discoveries that occurred during the 19th and 20th centuries was the recognition that electromagnetic fields existed around wires through which electricity passed. The electrostatic discharge that caused sparks to jump from a Van de Graaf generator to the ground confirmed experimentally that the air could also carry an electric charge, a phenomenon that mankind had historically witnessed as lightning. The electromagnetic wave that was caused by the current of electrons was learned to be detectable at a distance. By 1901, the young Italian inventor Guglielmo Marconi was able to detect these electromagnetic signals, generated from a sparking wireless transmitter in England, more than 2,000 miles away in Newfoundland.[7] Radio evolved from wireless telegraphy as men learned to control the electromagnetic fields that were carried in waves by altering their frequency and magnitude and thus the signal's traveling distance.

When it became clear that the air could not only conduct electricity, but could slow electric current as well, vacuum tubes were developed to increase the cycle speed of high energy electrons being released by the radio transmitter.[8] Vacuum-tube technology was the basis first for the radio, and later television broadcast industries, and later still, the first computers.

2. The Movement from Analog to Digital Technology

Following World War II, rapid progress was made in developing new electrical devices. The invention of the transistor revolutionized both the radio and television industries and all other electronics businesses as well. Personal electronics like radios became more compact, portable, durable and less expensive. This in turn again expanded the potential size of the audience capable of receiving and enjoying entertainment programming. The entertainment industries embraced the technologies that we refer to as analog. In fact, all technology used by the entertainment industries for most of the 20th century were analog-based technologies.[9]

a. Analog Technology

In order to understand the significance of the digital revolution, a general understanding of the differences between analog and digital technology will be helpful. Analog technology is characterized by the general phenomenon that signal output is always proportional to the initial input. It is *analogous*, thus, the word, *analog*.[10] For example, in an analog sound recording, the frequency of a tone striking a microphone creates a corresponding variation in the electrical current passing through the microphone. An increase in the volume of sound causes a fluctuation of the electrical current. This variability is what makes analog signals imprecise and subject to easy distortion. The sound captured in analog form in a vinyl record is easily distorted by dirt in the grooves of the record, scratches, wear of the needle, or warping of the vinyl. The deleterious effect allows other noise to interfere with the original pure tone signal. When information is transmitted using analog methods, a certain amount of "noise" inevitably enters the signal. When the noise becomes too great, the quality of the signal is degraded to the point that the original signal is lost in the noise. We have all experienced this effect with a scratchy phonograph recording, radio static, or when electronic broadcast interference causes "snow" on the television screen.

b. Digital Technology

Digital derives from the word digit, which means finger or a counting device. For digital devices, all numbers can be represented by just two symbols, "1" or "0" used in repetition. Any Arabic number can be represented by the simple binary device of 1's and 0's. For example, 1, 2, 3, 4, 5, 6 are represented as 1, 10, 11, 100, 101, 110, and so forth. 1 and 0 can also represent the state of an electronic switch, "on" or "off." By turning large numbers of electronic switches on or off in rapid succession, digital computers perform rapid calculations that can be used to accurately measure and reproduce entertainment content without flaws.[11]

Digitization is the act of breaking up information into immensely small samples. In his book *Being Digital*, Nicholas Negroponte explains:

> Digitizing a signal is to take samples of it, which, if closely spaced, can be used to play back a seemingly perfect replica. In an audio CD, for example, the sound has been sampled at 44.1 thousand times a second. The audio waveform (sound pressure level measured as voltage) is recorded as discrete numbers (themselves turned into bits). Those bit strings, when played back 44.1 thousand times a second, provide a continuous-sounding rendition of the original music. The successive and discrete measures are so closely spaced in time that we cannot hear them as staircase of separate sounds, but experience them as a continuous tone.
>
> * * *
>
> The same can be true for a black-and-white photograph. Imagine an electronic camera as laying a fine grid over an image and then recording the level of gray it sees in each cell. If we set the value of black to be 0 and the value of white to be 255, then any gray is somewhere between the two. Conveniently, a string of 8 bits has 256 permutations of 1s and 0s, starting with 00000000 and ending with 11111111. With such fine gradations and with a fine grid, you can perfectly reconstruct the picture for the human eye. As soon as you use a coarser grid, or an insufficient number of gray levels, you start to see digital artifacts, like contours and blockiness.[12]

Digitization of sound and images is possible because the number of times that digital devices allow analog items to be sampled and reproduced exceeds the capacity of the human senses to detect the separate parts. As digital computing speeds increased, and the available bandwidth through which digital information could be sent increased, and compression technology was developed, the circumstances were right for the move from analog to digital entertainment devices.

3. New Forms of Entertainment Content, Storage and Distribution

Not quite two decades ago, the compact disc was introduced to consumers. The shiny silver discs were made from a polycarbonate plastic coated with a thin layer of aluminum on which the information was digitally encoded, protected by a thin film of lacquer. Unlike vinyl records where a needle stylus made physical contact with grooves in the record, CDs are read optically by laser light. A 120-mm disc can store approximately 75 minutes of music, or about 650 megabytes of data.[13] The data or "bits"[14] are encoded on bumps in the spiral tracks of the CD. The light from the laser reads the varying lengths of each bump, and accurately assigns a digital numeric value (bit), which, when reassembled at the rate of 44.1 thousand times per second, creates the impression of continuous notes or tones.[15]

C. The Movement into Digital Entertainment Products

1. Generally

Compact discs revolutionized the music industry. Consumers found the music quality consistently good, the compact discs more convenient to transport and store, and less vulnerable to the kind of damage that long- playing vinyl records suffered. As vinyl records disappeared from stores, record companies enjoyed higher profits as the typical record contract paid a smaller percentage of the sales price to the artist for recordings sold on compact discs rather than vinyl. The record companies also took significant packaging deductions for compact disc recordings, even after the cost of manufacturing compact discs and the jewel-box packaging fell to mere pennies per item. The economics of the compact disc made sense to record companies and they encouraged the public's movement away from vinyl (analog) music to (digital) CDs. As earlier records first released on vinyl were digitized and re-released on CD, the record companies had the opportunity to sell the record a second time to the consumer, thus increasing their income and profits.

The success of CDs, both in their rapid adoption by consumers and financial benefit to record companies, encouraged the development of similar digital products for video. Phillips, the inventor of the compact disc, and Sony began to develop a product titled "The High Density Compact Disc (HDCD)." However, Toshiba, Mitsubishi, RCA, and Time Warner joined a total of eight major consumer electronic giants to develop the Digital Video Disc (DVD).[16] Sony had learned, with its unsuccessful attempt to market Beta as a video format in the 1980s, that two incompatible video formats would simply slow consumer acceptance of technology. So in December of 1995, all of the major consumer electronic and entertainment industry companies agreed to the new DVD format. Because the digital format was capable of storing more than video data, the term "DVD" later was used to designate Digital Versatile Disc (DVD) to reflect non-video format uses.

One of the major distinguishing features between compact discs and DVDs is that DVDs rely upon compression algorithms[17] to compress and expand the video and audio, thus gaining the ability to store more data on a disc that is roughly the same size as the compact disc. For example, the relatively new DVD Audio is a format for delivering high fidelity content of up to four hours of stereo per disc. The new technologies simply make it possible to store more digital information (bits of data) in progressively smaller devices, leading to greater convenience for the audience in terms of portability and ease of use. As with earlier entertainment technologies, storage capacity, convenience, portability and ease of use were irresistible draws for consumers.

2. Flawless Copies and Endless Reproductions

The danger of digitally stored data is that it can be easily read and reproduced by other digital devices so perfectly as to seem flawless to the human senses. Unlike analog reproductions, which constantly introduce additional flaws in the form of background static, distortion or noise, digital reproduction eliminates copying errors by introducing nothing other than the original digital information that was encoded onto the original recording medium. Even where data is lost, as in digital signals, sending additional data to fill in gaps can restore the data. The digital entertainment can be thus perfectly reproduced. But the entertainment industries recognized this too late. As Tim Bowen, Chairman of record label BMG in the United Kingdom, recently said, "The cat was let out of the bag when digitization and the CD arrived. . . . From that point on there was very little the music industry could do to protect the product."[18]

In early 2002, record companies began to market what they described as copy-protected compact discs. These CDs deliberately introduced errors into the data digitally recorded on the disc. A regular music CD player would find and eliminate the errors while a computer CD-ROM drive would fail to eliminate the errors, making the CD unplayable on computers. The record companies hoped to prevent the uploading of digital music onto computers, which was the first step of what they viewed as illegal copyright infringement through P2P file sharing.[19] DVD manufacturers began to use a Content Scrambling System (CSS) encryption to accomplish the same objective. Unfortunately for the entertainment industries, no encryption system yet devised has been unbreakable. Inventive hackers, security specialists, and even merely precocious students have found ways around every security mechanism thus far invented to secure entertainment content held in digital mediums. Recognizing this problem in the 1990s, entertainment industry lobbyists encouraged an amendment to the U.S. copyright laws to prevent this type of reverse engineering. In 1992, they obtained passage of the Audio Home Recording Act. In 1998, the United States Senate unanimously voted for the passage of the Digital Millennium Copyright Act.[20]

D. The Audio Home Recording Act and the Digital Millennium Copyright Act

The music industries and representatives of the audio hardware industries, after more than a decade of wrangling, agreed to compromise legislation that would give consumers access to new digital home recording technology while compensating artists and copyright owners for lost royalties due to the development of technologies for home recording. In October 1992, the United States Congress passed the Audio Home Recording Act (AHRA),[21] which required the manufacturers of DATs, DCCs, minidiscs and other audio recorders to make royalty payments to the music industry. Under the Act, royalty payments were deposited with the Copyright Office from both the manufacturers and importers of digital recorders and from companies that produced the blank media on which recordings were made. The Copyright Office held the deposited sums in two separate funds, the Sound Recordings Fund and the Musical Works Fund. The Sound Recordings Fund holds portions of the royalties allocated to the sound recordings for distribution to artists and the sound recording copyright holders. The Musical Works Fund held that portion of the royalties allocated to the underlying artists for distribution to songwriters and publishers. Each year, the Copyright Office administers the distribution of royalties to the individual claimants who submitted annual requests. In order to ensure that funds are paid fairly, Soundscan, the music sales organization, registers point of sale information on albums and singles from record retailers and others. Soundscan then provides this information to the Copyright Office, which uses the same proportions for allocation of funds. The problem with the AHRA is that it expressly exempted computers from its coverage. They were not seen by Congress as devices whose primary purpose was the creation of digital recordings.

The AHRA prohibited the import or manufacture of digital audio recording devices or digital audio recording mediums unless the person makes applicable royalty payments for each device manufactured.

Recognizing this problem and in order to implement the World Intellectual Property Organization's copyright treaty, the entertainment industries lobbied the United States Congress to pass the Digital Millennium Copyright Act (DMAC).[22] In part, the DMAC provides "no person shall circumvent a technological measure that effectively controls access to a work protected under this title."[23] The act further provides:

> No person shall manufacture, import, offer to the public, provide, or otherwise traffic in any technology, product, service, device, component, or part thereof, that A) is primarily designed or produced for the purpose of circumventing a technological measure that effectively controls access to a work protected under this title; B) has only limited commercially significant purpose or use other than to circumvent a technological measure that effectively controls access to a work protected under this title; or C) is marketed by that person or another acting in concert with that person with that person's knowledge for use in circumventing a technological measure that effectively controls access to a work protected under this title.[24]

The purpose of the act in part was to close the gap that was left by the AHRA in the use of computers as recording, storage and distribution devices of digital entertainment content.

E. Facing the Problem of P2P File Sharing

The entertainment industries, having failed to develop invulnerable entertainment products, hoped to strengthen their copyright protection by making it illegal to either circumvent their encryption efforts, or trade in software programs or devices that allowed circumvention of such encryptions. However, as we will see in Part Six, even armed with the AHRA and the DMCA, the enforcement efforts by the entertainment industries through trade associations like the Recording Industry Association of America (RIAA) and the Motion Picture Association of America (MPAA), have obtained inconsistent results.[25]

It is the public's ability to find and easily download copyrighted entertainment content, like music and movies over the Internet, which has become the focus of the entertainment industries' recent enforcement efforts. On February 26, 2003, Rep. Howard L. Berman, a Democratic Congressman from Los Angeles, testified before the House Judiciary Subcommittee on Courts, the Internet and Intellectual Property.[26] He testified that P2P networks were responsible for more than 2.5 billion downloads per month. He further estimated that between three and five million computers were making between 700 and 900 million media files available for download at any given moment. Berman testified that 16 percent of all files available for download at any given moment on the FastTrack network were located at IP addresses managed by U.S. educational institutions.[27] The Motion Picture Association of America estimates that between 400,000 and 600,000 movies are downloaded illegally each day.[28] The record industry estimates that it is losing at least $3.5 billion a year.[29] At least one company that analyzes P2P Internet trends calculated that about 61 million people in America already illegally download music on a regular basis and that about half of all files shared were music files. The same company calculated that video files make up about 21 percent of all files shared on the Internet. The same tracking company which tracks downloads at P2P networks such as Morpheus, Grokster and Kazaa, reports that as many as four million users may be logged onto a file-sharing network at any one time.[30] Understanding why the entertainment industries' present enforcement efforts are so difficult requires an understanding of the peculiarities of the computer-driven Internet, which we consider next.

Endnotes

1. 209 U.S. 1 (1908).
2. The 1909 Act addressed the problem of the player piano roll by expressly providing the music copyright holder with the right to grant a license to perform the sheet music.
3. To stop the spread of video recorders, Universal Studios brought suit against the manufacturer of the Betamax. *See Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417 (1984).
4. *Recording Indus. Ass'n of Am. v. Diamond Multimedia Sys.*, 180 F.3d 1072 (9th Cir. 1999).
5. All matter is composed of atoms. These atoms are, in turn, composed of subparticles that are held together by their electromagnetic charge. An atom's nucleus, which is positively charged, attracts and holds negatively charged electrons that orbit it. In some types of matter, the outermost electrons may be so loosely connected to the rest of the atom that they can easily be torn away. This is how a glass rod can become positively charged when rubbed by a silk cloth, as loose negative electrons are torn away. With metals, such as copper, the atoms easily lose and recapture the outermost electrons, and thus become excellent conduits of electrical currents that

flow from a positively charged source to a negative location. In contrast with metals, some matter contains only a few quasi-loose electrons when at room temperature. Thus, materials like silicon, which only carries an electrical charge when voltage is applied, are considered semiconductors. By adding a metal impurity as an electron donor, positive conduction can be caused by creating a deficiency of electrons in one area and excess in another area. Thus, the electrons flow from the point of surplus to the area of deficiency. This phenomenon forms the basis of microcircuits, computer chips and digital computers.

6. The telegraph was invented by Samuel Morse in 1835. Morse Code, consisting of dots and dashes, was developed by Alfred Vail while helping Samuel Morse. The invention was so successful that it rapidly spread across both the United States and Europe in just a few decades. *See* Deborah L. Spar, Ruling the Waves 99 (2001).

7. *Id.* at 124. The electromagnetic waves from a radio transmitter travel at the speed of light and are slowed. Thus, broadcast technologies are often referred to as instantaneous, though they are not, since there is a finite speed, the speed of light.

8. Electrons in such vacuum tubes flowed in only one direction, from the hot cathode to the cold anode of the tube, thus allowing greater control of the electrons and the electromagnetic wave that was created.

9. An analog signal is one that constantly changes because the signal is continuously variable within a wave form. In broadcast, it varies based upon modulation of both the amplitude and frequency. In recording media, other variables arise.

10. The Merriam-Webster Dictionary defines "analog" as being "a mechanism in which data is represented by continuously variable physical qualities." *See* The Merriam-Webster Dictionary *at* <http://www.m-w.com>.

11. The reason digital devices can produce flawless copies is because all signals are converted to simple binary digits. The binary digits can be read and reproduced exactly. No digits are accidentally added and, therefore, there is no additional data or noise added to the signal.

12. Nicholas Negroponte, Being Digital 14–15 (1995).

13. New types of CDs can store even larger units of data by layering the data on different levels of the spiral tracks.

14. Nicholas Negroponte, Being Digital 14 (1995):

    > A bit has no color, size, or weight, and it can travel at the speed of light. It is the smallest atomic element in the DNA of information. It is a state of being: on or off, true or false, up or down, in or out, black or white. For practical purposes we consider a bit to be 1 or a 0. The meaning of the 1 or the 0 is a separate matter. In the early days of computing, a string of bits most commonly represented numerical information.

15. Compact discs are manufactured by etching a glass plate and using that plate to impress metal, which then is used to manufacture the polycarbonate discs.

16. For a history of the DVD, see <http://en.wikipedia.org/wiki/Dvd>.

17. Data compression algorithms operate on the premise that most data is redundant. Long strings of numbers that are repeated numerous times through a data stream can be replaced by a simple, much shorter code as the data is compressed. When the data is expanded, the code is replaced by the longer string of digits, thus largely preserving the original quality.

18. *See* Darren Waters, *Electronics Firms Accused Over Piracy*, July 10, 2003, at <http://newsvote .bbc.co.uk/1/hi/entertainment/music/3056015.stm>.

19. See the discussion of peer-to-peer filesharing's development under Part III.G., *infra*.

20. The Digital Millennium Copyright Act became law on October 28, 1998. Pub. L. No. 105-304, 112 Stat. 2860 (1998).

21. 17 U.S.C. § 1003.

22. Pub. L. No. 105-304, 112 Stat. 2860 (Oct. 28, 1998).

23. For a complete description of the Digital Millennium Copyright Act, see the Copyright Office's description at <http://www.copyright.gov/legislation/dmca.pdf>.

24. 17 U.S.C. § 1201(a)(2).

25. This inconsistency can be traced, in part, to earlier decisions by the United States Supreme Court and the *Sony Betamax* decision. *Sony Corp. v. Universal City Studios*, 464 U.S. 417 (1984). There, the Court concluded that the video device, while capable of making illegal copies, was also capable of providing consumers with a useful ability to record and watch programs that they would otherwise miss. This time-shifting capacity of the Betamax technology allowed the copies that were made for personal home use to fall within the fair use exception of the copyright act. Relying upon the Supreme Court's decision in *Sony Betamax* in 2003, the Ninth Circuit Court of Appeals concluded that P2P file-sharing software, which could be used for making illegal copies of files, could also be used for other non-infringing purposes. In *MGM v. Grokster*, the Ninth Circuit declined to conclude that distributors of the peer-to-peer file-sharing software were contributory infringers of the copyrighted movies that were being downloaded over the Internet illegally. In part, as a reaction to the decision, the RIAA, in June of 2003, announced that it would begin collecting data on peer-to-peer file-sharing software users in order to obtain necessary evidence to commence litigation against copyright infringers. Using the Digital Millennium Copyright Act, in early 2003, the RIAA had obtained an order from the United States District Judge, which required the Internet service provider, Verizon, to provide the RIAA with the name of a Kazaa subscriber who allegedly shared hundreds of music recordings illegally over the Internet.

26. <http://www.house.gov/apps/list/speech/ca28_berman/UniversityPeertoPeer.html>.

27. Berman testified that this means that educational institutions are offering between 111 and 142 million mostly infringing files at any given time.

28. *MPAA Snooping for Spies*, July 22, 2002, <http://www.wired.com/news/politics/0,1283,54024,00 .html>.

29. Annual CD sales grew from 800,000 in 1984 to almost 950 million in 2000. *See* Matt Sebastian, *Netloss: Record Stores and Musicians Suffer as Fans Go Online for Free Tunes*, The Daily Camera; *see also* What's Holding Back Online Music? July 12, 2003 <http://news.com.com/ 2102-1086_3-1025006.html>.

30. The company analyzing these Internet trends is Big Champagne. *See* Mark Niesse, *Getting Illegal Movies for Free has Never Been Easier*, May 25, 2003 <http://www.macon.com/mld/macon/news/local/5943833.htm>; *see also* note 65, *supra*.

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Entertainment, Arts and Sports Law Journal

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ISSN 1090-8730

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