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# Entertainment, Arts and Sports Law Journal

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

## Letter from the Chairman

Alan D. Barson

The EASL Section's Annual Meeting on January 22, 2007 was a resounding success. Attendance records were crushed under the feet of hotel workers rushing in with additional seats to accommodate the last-minute registrants. The program, *"The Impact of Digital Technologies on the Entertainment Business,"* focused on two main areas, digital distribution of content to mobile devices and legal issues relating to user-created content websites such as YouTube and MySpace. The panelists were an esteemed group of top legal talent, the majority of whom (we proudly note) are active EASL Section members (indicated in boldface below). Indeed, both panels were moderated by members of the EASL Section Executive Committee. Those of you who attended were treated to an afternoon of eloquent and informed discourse from Mark Eisenberg (SonyBMG Music Entertainment), **Kenneth Kaufman** (Skadden, Arps, Slate, Meagher & Flom, LLP), **Paul LiCalsi** (Sonnenschein Nath & Rosenthal LLP), **Stanley Pierre-Louis** (Kaye Scholer LLP), Gillian Lusins (NBC Universal Inc.), Jeffrey Neuburger (Thelen Reid Brown Raysman & Steiner LLP), **Marc Reisler** (Katten Muchin Rosenman LLP), **Barry Skidelsky** (Co-Chair, EASL's Television and Radio Committee) and Charles Wright (A&E Television Networks), to whom we extend our grateful thanks. Congratulations and grateful thanks also go to the EASL Section Programs Committee co-chairs, **Michele Cerullo**, **Tracey Greco** and **Joyce Dollinger** for putting together this extraordinary program.

For those of you who missed it, there are second chances. To meet the demands of those members who could not be present at Section-wide programs, for a very reasonable fee we make those programs available

## Inside

via DVD. The 2007 program will be available this spring, complete with all written materials. EASL Annual Meeting programs from 2005 and 2006 are also available at www.nyeasl.org (click the **EASL Recorded Programs** link on the left). If you are looking for an enjoyable, informative and affordable way to get some CLE credits, I highly recommend them. For those of you who just can't wait to see what the panelists had to say, or wish to remind yourselves of what you experienced, an edited transcript of the entire 2007 program is reproduced within this issue of the *Journal*.

Unfortunately, there are no second chances (until next year, anyway) for those of you who missed our third annual cocktail reception (sponsored, in part, once again by XM Satellite Radio), which followed the program. The 16th floor Sky Lounge at the New York Marriott Marquis was the festive setting for this gathering, and a great time was had by all. Not only did the program attendees and panelists have an opportunity to kick back after the program, but we were joined by invitees from the Young Lawyers Section and members of the Intellectual Property Law Section, whom we will hopefully be welcoming as EASL Section members and active participants very soon. Special thanks go to EASL's Membership Coordinator, **Rosemarie Tully**, for coordinating the recruitment drive, and to **Judith Prowda** for obtaining the wonderful pianist. Last, but far from least, we acknowledge and gratefully thank Christy Douglas and Juli Turner from our professional staff at the NYSBA for their tireless efforts to ensure that everything ran smoothly, which it certainly did.

The slate of programs for this year is shaping up. There are several committee programs already scheduled and many more are in the planning stages. We are looking forward to the EASL Spring Meeting, which will feature Stan Soocher's highly informative and entertaining Entertainment Law Update. The Fall Meeting will once again be in conjunction with the CMJ 2007 Music Marathon, and promises to be bigger and better than last year's effort—which was a huge success by any measure. In addition, EASL's Committee on Sports will once again be co-hosting the annual Sports Law Symposium with Fordham Law School, a prestigious event with which we are proud to be associated.

As I write this column, plans are in high gear for the EASL Section's 20th Anniversary celebrations. That's right—the EASL Section is growing up. To mark this milestone, the 2008 Annual Meeting and Reception promises to be the best ever, and a special edition of the *Journal*, to be published just prior to the meeting, is in the planning stages. Other events are in the works too. Watch your e-mail inbox for further announcements.

Of course, you have to be an EASL Section member in order for those little missives to keep rolling in. This being the very end of membership renewal season, I hope you have signed up for another great year of NYSBA and EASL Section membership. You can do this online, of course. If you haven't, those e-mails will suddenly stop arriving in April. Please don't let that happen. If you have any questions (or qualms), PLEASE contact **Rosemarie Tully**, our Membership coordinator, or Juli Turner at the Bar Center in Albany. For those in need of financial assistance, details of the Dues Waiver Program can be found on the NYSBA web site (www.nysba.org/dueswaiver). For Section-wide programs, scholarships are usually available as well, and details are provided in program announcements. Being part of a strong professional organization can play an important role in career development, particularly during periods of transition or other challenging times. If this speaks to you, please don't hesitate to take advantage of these benefits. Complete confidentiality is assured.

**Alan Barson**
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**Alan D. Barson, Esq. practices entertainment, copyright and trademark law. He is based in New York City, and represents creative and executive talent in the motion picture, television, home video, book, recording, music publishing, licensing, touring, theatre and new media industries. In addition to serving as Chairman of the Entertainment, Arts and Sports Law Section of the New York State Bar Association, Alan co-chairs the Section's Music and Recording Committee and is a Section Delegate to the Association's House of Delegates.**

# Editor's Note

I am pleased to include once more, for those of you who were unable to attend and/or for those who did and want a refresher, an edited version of the Annual Meeting transcript. The umbrella topic was "The Impact of Digital Technologies on the Entertainment Business," which panels are more fully described in Alan's Letter from the Chairman.

In this issue of the *Journal*, the Pro Bono Update is incorporated in the transcript. Elisabeth and I made a brief presentation about obtaining professional liability insurance through our partnership with the Intellectual Property Law Section. For questions, suggestions and/or to participate in EASL's *pro bono* efforts, please contact either Elisabeth or me.

We also have two LSI winners that complement not only each other, but the Annual Meeting topic as well, and several timely and interesting articles for your reading pleasure.

**THE NEXT *EASL JOURNAL* DEADLINE IS FRIDAY, MAY 18, 2007**

**Elissa**

**Elissa D. Hecker of the Law Office of Elissa D. Hecker, located at 90 Quail Close, Irvington, NY 10533, practices in the fields of copyright, trademark and business law. Her clients encompass a large spectrum of the entertainment and corporate worlds. In addition to her private practice, Elissa is Immediate Past Chair of the EASL Section. She is also Co-Chair and creator of EASL's Pro Bono Committee, a frequent author, lecturer and panelist, a member of the Copyright Society of the U.S.A (CSUSA) and a member of the Board of Editors for the Journal of the CSUSA. Elissa is the recipient of the New York State Bar Association's 2005 Outstanding Young Lawyer Award. She can be reached at (914) 478-0457 or via email at: EHeckerEsq@yahoo.com.**

## Correction

A version of Michael Poster's article entitled "Copyrights As Collateral: Addressing the Reversion Risk," which appeared in the Fall/Winter 2006 issue, was reprinted from *Commercial Lending Review*, July 2006. 

# 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 authored 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: 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**

# Spring 2007 Law Student Initiative Winning Authors

**David Mann** of Benjamin N. Cardozo School of Law, for
"So You Wanna Be a P2P—An Analysis of P2P and OSP Liability Post-*Grokster*"

and

**Jonathan Purow** of Benjamin N. Cardozo School of Law, for
"The Copyright Implications of YouTube"

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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 are interested 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 email 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 **Friday, May 18, 2007**.
- **Submissions**: Articles must be submitted via a Word email attachment to eheckeresq@yahoo.com or via mail to:

  Elissa D. Hecker, Esq.
  Editor, *EASL Journal*
  90 Quail Close
  Irvington, NY 10533

### 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.

**Deadline:**
**Friday, May 18, 2007**

# EASL Section and BMI Offer 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 1st for student submissions to their respective law schools for initial screening; November 15th for law school submission 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 the EASL Section

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 that is published three times a year, the *EASL Journal*.

## About the 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.

**Upcoming *EASL Journal* Deadline: Friday, May 18, 2007**

# Addenda to Art as Wealth: Frequently Asked Questions about Estate Planning for Art Collectors

## (*EASL Journal*, Summer Issue 2006)

By Gerry Morlitz and Elizabeth E. Nam

In the Summer 2006 issue of the *EASL Journal*, we presented a number of tax planning ideas that might appeal to owners and collectors of fine art. One of the techniques, namely the transfer of fractional interests in artwork to charity over the course of several years, was seriously restricted under the provisions of the Pension Protection Act of 2006 ("the PPA"), which was enacted into law and made effective for gifts given after August 17, 2006.

As discussed in the article, the basic planning concept is that a transfer of an undivided fractional interest in an asset to a 501(c)(3) charitable organization qualifies for the income tax charitable deduction equal to the fair market value of the property transferred. If the fair market value of an artwork steadily appreciates, it naturally followed that the value of an undivided fractional interest in that artwork would also increase over time. Consequently, under prior law, successive charitable gifts of fractional interests over the span of several years could result in significant income tax deductions for the donor.

Changes in the law under the PPA indicate that Congress perceived this technique to be a "loophole" that needed to be closed. As a result, the Tax Code, as amended by the PPA, now provides that the fair market value of tangible personal property, of which a fractional interest is being transferred to a charitable donee, is fixed at the time the initial gift is made. Internal Revenue Code Section 170(o)(2) now requires that the value of the fractional interest is determined using the *lesser of* (1) the property's fair market value as of the date of the initial fractional gift, or (2) the property's fair market value as of the date of the additional fractional gift. In this way, future appreciation in the property cannot be taken into account for purposes of determining the amount of the charitable deduction available to the donor. These rules apply for estate and gift tax charitable deduction purposes as well.

As an example, assume that in September 2006, Mr. Smith had a painting with a fair market value of $1,000,000, in which he transferred an undivided 10 percent interest to the Museum of Modern Art. Mr. Smith's charitable income tax deduction will be $100,000 in 2006, and post-transfer, he still retains an undivided 90 percent interest in the painting. Sotheby's manages to sell a painting by the same artist for a record sum at its spring auction and the value of Mr. Smith's painting suddenly spikes to $1,300,000. In September 2007, Mr. Smith makes an additional gift of an undivided 10 percent interest in the painting. Despite the reality that 90 percent of $1,300,000 is $1,170,000 and 10 percent of that amount is worth $117,000, Mr. Smith's charitable deduction is limited to $90,000 under the new valuation rules.

> *"[T]he Tax Code, as amended by the PPA, now provides that the fair market value of tangible personal property, of which a fractional interest is being transferred to a charitable donee, is fixed at the time the initial gift is made."*

In addition, the PPA implements a recapture provision under certain circumstances. If the donor does not transfer all of his remaining interest in an artwork to the donee charitable organization (or another donee organization, if the original one has ceased to exist) within 10 years after the date of the initial fractional interest gift, or if earlier, as of the donor's death (the "specified period"), then all of the charitable income tax deductions generated by the fractional interest transfers will be recaptured. Recapture is also triggered if the charitable donee has not taken substantial physical possession of the artwork (thus failing to use the artwork for the organization's exempt purpose) within the "specified period." To make the technique even less attractive, when recapture applies, the new law imposes a 10 percent penalty on the amount recaptured.

The effect of the PPA provisions is to take away the primary benefits of the fractional interest charitable gift for most clients, particularly younger clients who will live far beyond the ten-year "specified period." The income tax deductions allowable for these gifts are now artificially limited under the special valuation rules of Section 170(o), and the ten-year requirement under the recapture provisions restricts the donor's possessory interest during his or her lifetime. The changes made under the PPA are unfortunate for wealthy taxpayers, but they also create difficulties and complications for charitable organizations that have entered into acquisition arrangements with their wealthy donors.

*In compliance with Treasury Department Circular 230, unless stated to the contrary, any Federal tax advice in this article is not intended or written to be used and cannot be used for the purpose of (i) avoiding penalties under the Internal Revenue Code, or (ii) promoting, marketing or recommending to another party any transaction or matter addressed herein.*

**Gerald Morlitz is a solo practitioner and Director of Cowan Financial Group in New York City. He concentrates on estate and financial planning. Mr. Morlitz is a member of the Trusts and Estates Law, Family Law and Elder Law Sections of the New York State Bar Association. He is also a member and past Director of the Estate Planning Council of New York City, and a member and past President of the Financial Planning Association of New York City.**

**Elizabeth E. Nam is an advisor at Rothstein Kass & Co., New York City. Having practiced trusts and estates law for several years as a law firm attorney, Ms. Nam counsels high-net-worth individuals and the Rothstein Kass Family Office Group with respect to estate planning, estate administration and related tax compliance matters. A member of the Trusts and Estates Law and the Entertainment, Arts and Sports Law Sections of the New York State Bar Association, as well as a member of the Estate Planning Council of New York City, Ms. Nam is admitted to practice law in New York and Massachusetts.**

# Women Entertainment Attorneys Take Time for Holiday Tea

By Diane Krausz

The dark and stormy skies of December 1st could not dampen the determination of more than 30 women entertainment attorneys from kicking off their holiday season at Lady Mendl's Tea Parlour in New York's Gramercy Park.

Hosted by Rosemary Carroll, name partner of Carroll, Guido and Groffman; Roberta Korus, of Sukin Law Group, P.C.; and me, of D. Krausz and Associates, the informal gathering brought together partners and associates from prominent firms, as well as business affairs executives from talent agencies and major entertainment companies. The event was organized specifically in an environment conducive for its invitees to "put names to faces" and meet in a friendly, informal business venue rarely provided to women in the entertainment industries. A spring event is in planning, which will most likely include a combined offering of an informational seminar with spa services.

The founders plan to organize at least four events per year. Their goals are to develop and cultivate relationships among influential industry women, and to encourage networking and mentoring. For further information, please contact me at DKrausz@aol.com, Roberta at Rkorus@sukinlaw.com or Rosemary at RCarroll@ccgglaw.com.

# Touchdown, Brent Jones! 49ers' Tight End Scores in a Big Victory over CBS

By Joseph M. Hanna

After a spectacular NFL career as a tight end for the San Francisco 49ers in which he collected 33 touchdown catches, three Super Bowl rings and four Pro Bowl selections, Brent Jones decided to take his football experience to the broadcasting booth. In 1998, Jones joined CBS Broadcasting, Inc.'s ("CBS") broadcast team. CBS and Jones entered into a written contract (the "Agreement") in which Jones would provide on-air analysis for NFL games. The original Agreement ran until February 15, 2003. In January of 2003, CBS extended the Agreement through 2006.

Stating that he wanted to spend more time with family and focus on other business ventures, Jones resigned from CBS on September 29, 2005, refusing to honor the remainder of his contract. At the time of his resignation, CBS had paid Jones approximately $123,000 of his $200,000 salary for 2005; however, Jones had provided on-air services for only three games of the 2005 NFL season.

CBS refused to pay the remainder of Jones' salary for that season. In fact, the network felt that Jones was only entitled to 3/17ths of his $200,000 salary (approximately $35,294), and demanded that it be reimbursed for any amounts paid above that for the 2005 contract year. Jones refused to reimburse CBS.

On October 27, 2005, CBS filed a complaint in the Supreme Court of New York, County of New York, alleging breach of contract and unjust enrichment. On December 19, 2005, Jones removed the case to the United States District Court for the Southern District of New York based on diversity of the parties.[1] Jones then filed a motion for judgment on the pleadings seeking dismissal of the claim against him.

Jones made two arguments in support of his motion for judgment on the pleadings: (1) CBS's breach of contract claim must be dismissed because CBS has already exercised its sole remedy of terminating payment to Jones for the breach; and (2) CBS's unjust enrichment claim must be dismissed as a matter of law because a valid enforceable contract existed between the parties.

After analyzing the facts of the case and applying basic contract law, the district court rejected CBS's breach of contract and unjust enrichment claims and granted Jones' motion to dismiss.

## The Breach of Contract Claim

By the time Jones breached his contract, CBS had paid him for approximately eight months of the calendar year. However, as of the date of his resignation from the network, Jones had worked only three games of the NFL season. Thus, CBS argued that Jones only should have been paid 3/17ths of his $200,000 salary and that it should be reimbursed for all amounts paid above that for the 2005 contract year. Jones did not dispute that he breached his contract with CBS; however, he argued that CBS had already exercised its sole remedy for a breach of contract by ceasing further payment to him, and that reimbursement was not a remedy available to CBS. The court agreed.

*"After analyzing the facts of the case and applying basic contract law, the district court rejected CBS's breach of contract and unjust enrichment claims and granted Jones' motion to dismiss."*

In dismissing CBS's breach of contract claim, the court focused on the contract itself. Paragraph 1(a) of the Agreement stated that Jones was to provide services as "an On-Air Analyst and in related capacities in connection with the National Football League game and studio coverage and any related NFL program and/or coverage." Paragraph 1(b) provided that CBS and Jones "will negotiate in good faith regarding appropriate additional compensation to be paid" if any services other than those detailed in paragraph 1(a) were requested. The contract between the parties also detailed a list of services that Jones had to provide at CBS's request, including "attendance at rehearsals, program conferences, publicity photographic sessions, sales promotion meetings, affiliate meetings and conventions, trade shows and other events and functions."

CBS began compensating Jones for the 2005 contract year on February 13, 2005. The Agreement stated that payment was to be made "in accordance with CBS's payroll practices." He specifically stated that Jones was to be compensated at the rate of "1/52nd of Two Hundred Thousand Dollars ($200,000.00) per week." Therefore, the Agreement called for Jones getting paid on a weekly basis. The Agreement did not reference the number of football games Jones was expected to call each year, nor did it contain a provision for the return of any payment to CBS in the event Jones terminated the Agreement prematurely. Rather, Paragraph 19 of the Agreement between CBS and Jones provided that:

> If Contractor or Artist at any time materially breaches any provision of this Agreement . . . CBS may . . . reduce Contractor's Compensation pro rata, and/or CBS may, by so notifying Contractor during or within a reasonable time after such period, terminate this Agreement.

"Pro rata" was not defined in the Agreement.

The district court held that the Agreement between CBS and Jones "is not wholly without ambiguity." However, in rendering its decision, the court referred to well-known contract principles involving the language of a contract and whether that language is considered ambiguous,[2] acknowledging the well-known rule that contractual language is unambiguous if it has a "definite and precise meaning" and "there is no reasonable basis for a difference of opinion" as to its interpretation.[3] Conversely, "contract terms are ambiguous if they are capable of more than one meaning when viewed objectively by a reasonably intelligent person who has examined the context of the entire integrated agreement and who is cognizant of the customs, practices, usages and terminology as generally understood in the particular trade or business."[4]

The court further relied on the well-established principle that "[l]anguage whose meaning is otherwise plain does not become ambiguous merely because the parties urge different interpretations. . . . The court is not required to find the language ambiguous where the interpretation urged by one party would 'strain the contract language beyond its reasonable and ordinary meaning.'"[5]

The court analyzed the section of the Agreement which allowed CBS to "reduce Contractor's compensation pro rata." However, the term pro rata was never defined. The court held that a "reasonably intelligent and objective person could give the Agreement only one interpretation—that 'pro rata' means a proportion based not on the number of games called out of seventeen; but, rather on the number of weeks out of the year the Agreement was in effect." It reached this conclusion by looking at the express language of the Agreement, which it found undermined CBS's argument. In the Agreement, CBS agreed to pay Jones according to its "regular payroll practices." Furthermore, CBS agreed to pay Jones at the rate of 1/52nd of $200,000 per week for the 2005 contract year. The court concluded that the plain language of the Agreement suggested that "pro rata" was to be based on the number of weeks worked out of the year.

The court also noted that there was no language in the Agreement to support CBS's contention that Jones was obligated to call a certain number of games per year. Therefore, it found CBS's contention that Jones was obligated to call 17 games, the number of games in the NFL regular season, to be completely misplaced. There was also no provision in the Agreement that called for Jones to reimburse CBS in the event of a breach. The specific remedies set out in the contract were a reduction of Jones' salary, and/or termination. CBS had exercised one of its available remedies by terminating the contract at the time of the breach.

The court concluded its analysis of the breach of contract issue by stating that CBS's interpretation of the Agreement "does not make sense." The number of games was not specified in the contract—i.e., there could have been more than 17 games. Jones may have been asked to call exhibition games, playoff games, and the Pro Bowl. Also, Jones had other obligations to CBS that were not limited to calling games, such as trade shows, publicity photographic sessions, and press conferences.

The court concluded by saying that "the parties could not have intended that [Jones] would be paid on a weekly basis throughout the year, subject to a refund if Jones did not call all the games. If that had been the parties' intention, they surely would have spelled that out in the Agreement."[6]

### Unjust Enrichment

The court also dismissed CBS's claim that Jones was unjustly enriched because he was paid for work that he did not perform. "To state a claim for unjust enrichment in New York, a plaintiff must allege that: (1) defendant was enriched; (2) the enrichment was at plaintiff's expense; and (3) the circumstances were such that equity and good conscience require defendants to make restitution."[7]

Under New York law, however, "[t]he existence of a valid and enforceable written contract governing a particular subject matter precludes recovery in quasi-contract or unjust enrichment for occurrences or transactions arising out of the same matter."[8] On the other hand, where "there is a bona fide dispute as to the existence of a contract or where the contract does not cover the dispute in issue, [a party] may proceed upon a theory of quantum meruit and will not be required to elect his or her remedies."[9]

The court held that there was a valid and enforceable contract between CBS and Jones and that the subject matter of the unjust enrichment claim was covered by the contract. Therefore, CBS could not recover under any theories of quasi-contract, and Jones' motion to dismiss the unjust enrichment claim was granted.

CBS also argued that the unjust enrichment claim was permissible under Rule 8(e)(2) of the Federal Rules of Civil Procedure. However, in dismissing the claim, the court determined that the cases that CBS cited to support its argument were inapplicable because in each of the cases the validity of the contract was at issue.[10] The court explained that the alternative pleading rules may allow for an unjust enrichment claim where there was a question as to the validity or enforceability of a contract. In the present case, however, there was no dispute that a valid, enforceable contract existed.

*"Based upon fundamental contract law and a practical interpretation of the Agreement, the district court held that CBS's Agreement was ambiguous and did not properly set out safeguards to protect itself in case a party to the contract was to breach it."*

## Conclusion

Based upon fundamental contract law and a practical interpretation of the Agreement, the district court held that CBS's Agreement was ambiguous and did not properly set out safeguards to protect itself in case a party to the contract was to breach it. Like the paydays that he had waiting for him in the end zone from the golden arms of Joe Montana and Steve Young, Jones cashed in one more time, when the district court ruled in his favor by dismissing CBS's case.

## Endnotes

1. *CBS Broadcasting Inc. v. Brent Jones and Brent Jones, Inc.*, 2006 WL 3095916 (S.D.N.Y. 2006).
2. *See Morse/Diesel, Inc. v. Trinity Indus., Inc.*, 67 F3d 435, 443 (2d Cir. 1995).
3. *Sayers v. Rochester Tel. Corp. Supplemental Mgt. Pension Plan*, 7 F.3d 1091, 1094-95 (2d Cir. 1993) (*quoting Breed v. Ins. Co. of North America*, 413 N.Y.S.2d 352, 355 (1978)); *see Lucente v. IBM Corp.*, 310 F.3d 243, 257 (2d Cir. 2002).
4. *Nowack v. Ironworkers Local 6 Pension Fund*, 81 F.3d 1182, 1192 (2d Cir. 1996); *Space Imaging Europe, Ltd. v. Space Imaging L.P.*, 38 F. Supp. 2d 326, 334 (S.D.N.Y. 1999); *Sayers v. Rochester Tel. Corp.*, 7 F.3d 1091, 1095 (2d Cir. 1993).
5. *Hunt Ltd. v. Lifschultz Fast Freight, Inc.*, 889 F.2d 1274, 1277 (2d Cir. 1989) (*quoting Bethlehem Steel Co. v. Turner Constr. Co.*, 2 N.Y.2d 456, 459, 161 N.Y.S.2d 90, 141 N.E.2d 590 (1957)).
6. *CBS Broadcasting Inc. v. Brent Jones and Brent Jones, Inc.*, 2006 WL 3095916 (S.D.N.Y. 2006).
7. *Kidz Cloz, Inc. v. Officially for Kids, Inc.*, 320 F. Supp. 2d 164, 177 (S.D.N.Y. 2004) (citing *Astor Holdings, Inc. v. Roski*, No. 01 Civ. 1905 (GEL), 2002 WL 72936, *17 (S.D.N.Y. Jan. 17, 2002) (citing *Louros v. Cyr*, 175 F. Supp. 2d 497 (S.D.N.Y. 2001)).
8. *Eagle Comtronics, Inc. v. Pico Products, Inc.*, 682 N.Y.S.2d 505, 506 (4th Dep't 1998) (citing *Clark-Fitzpatrick, Inc. v. Long Island R.R. Co.*, 521 N.Y.S.2d 653, 656 (Ct. App. 1987)).
9. *Leroy Callendar, P.C. v. Fieldman*, 676 N.Y.S.2d 152, 153 (1st Dep't 1998) (quoting *Joseph Sternberg, Inc. v. Walber 36th St. Assocs.*, 594 N.Y.S.2d 144, 146 (1st Dep't 1993)).
10. *Astroworks, Inc. v. Astroexhibit, Inc.*, 257 F.Supp.2d 609, 621 (S.D.N.Y. 2003) (noting that whether or not a contract existed was yet to be decided); *Cosmocom, Inc. v. Marconi Communs, Int'l, Ltd.*, 261 F.Supp.2d 179, 187 (E.D.N.Y. 2003) (refusing to dismiss the claim because of the possibility the contract was terminated before the plaintiff claimed the defendant was unjustly enriched).

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# The Future Is Calling (Or Is It the Past?) Register Deems Compulsory License of Copyright Act Applicable to Cell Phone Ringtones

By Matthew David Brozik

The Register of Copyrights recently decided a skirmish in the long-standing and historically lopsided conflict between U.S. songwriters and record labels in favor of the latter. She opined that the compulsory license provisions of the Copyright Act allow for the digital distribution of a portion of a recorded song as a cell phone ringtone, without the permission of the holder of the copyright in the composition, as long as the intended distributor complies with the usual statutory requirements of giving notice and paying royalties. In her memorandum opinion, Register of Copyrights Marybeth Peters reached a conclusion that would permit the arguably already 800-pound gorilla in the music industry of this country to sit harder on songwriters and composers by way of a mechanism constructed 100 years ago that perhaps only Congress and the record labels believe—or pretend to believe—remains relevant today.

## Section 115, Then and Now

In 1909, Congress enacted a law to protect the right of the holder of copyright of a musical composition to make and distribute (or authorize another to make and distribute) mechanical reproductions (known today as phonorecords) of that composition. Concerned by the specter of potential monopolistic behavior, Congress created a statutory license, 17 U.S.C. § 115, to permit anyone to make and distribute a mechanical reproduction of a musical composition without the consent of the copyright holder, so long as one complied with the affirmative requirements of the statute, chief among them the payment of a statutory royalty to the copyright holder. Although enacted to address the reproduction of musical compositions on perforated piano rolls, the statutory license has for most of the past century been employed primarily for the making and distribution of phonorecords and, more recently, for the digital delivery of music online.[1]

The Digital Performance Right in Sound Recordings Act of 1995 (the "DPRA") amended § 115 to include a definition of a *digital phonorecord delivery*, or DPD, as "each individual delivery of a phonorecord by digital transmission of a sound recording which results in a specifically identifiable reproduction by or for any transmission recipient of a phonorecord of that sound recording."[2] It also made such DPDs subject to § 115.

## The Memorandum Opinion

### Procedural Context

By a Memorandum Opinion dated October 16, 2006 (the "Opinion"), Register of Copyrights Marybeth Peters provided official advice to the Copyright Royalty Board (the "Board"), which tribunal had sought guidance in regard to two novel questions of law[3] presented to it by the Recording Industry Association of America, Inc. (the "RIAA") in the course of a Mechanical and Digital Phonorecord Delivery Rate Adjustment proceeding. The Board had begun deliberations on new reasonable rates and terms for the making and distribution of phonorecords under § 115 of the Copyright Act.[4]

> *"She opined that the compulsory license provision of the Copyright Act allows for the digital distribution of a portion of a recorded song as a cell phone ringtone, without the permission of the holder of the copyright in the composition, as long as the intended distributor complies with the usual statutory requirements of giving notice and paying royalties."*

### Interested Parties

The RIAA, a trade group representing the recording industry in the United States—principally private corporate record labels and distributors—had requested that the Board refer to the Register a pair of related questions regarding the eligibility of a ringtone[5] for statutory licensing under § 115. The RIAA suggested and the Board evidently agreed that the Register's answers would aid the Board in determining the scope of the rate-setting proceeding underway.[6]

Opposition to the motion of the RIAA to refer the questions to the Register was offered collectively by the National Music Publishers Association, Inc., the Songwriters Guild of America, and the Nashville Songwriters Association International (referred to in the Opinion and herein as the "Copyright Owners"). The Copyright Owners, as will be explored below, believed that no question existed, let alone any that needed referral to the Register. The Board decided that the matters raised by the RIAA did present novel questions of law such that submission thereof to the Register was appropriate.[7]

### Questions Presented

The questions presented to the Register by the Board are as follows:

1. Does a ringtone, made available for use on a cellular telephone or similar device, constitute delivery of a digital phonorecord that is subject to statutory licensing under 17 U.S.C. § 115, irrespective of whether the ringtone is monophonic (having only a single melodic line), polyphonic (having both melody and harmony), or a mastertone (a digital sound recording or excerpt thereof)?
2. If so, what are the legal conditions and/or limitations on such statutory licensing?[8]

> *"The Register found that ringtones (of all identified varieties) are phonorecords and that the delivery thereof by wire or wireless technology meets the definition of DPD set forth in § 115(d)."*

### Some Terms Defined

The Register's opinion was informed in part by the definitions of certain terms, including digital phonorecord delivery. A DPD is essentially the modern version of the mechanical phonorecord, a downloadable song file (such as one might purchase legally from Apple Computer's iTunes Music Store, for example, or share, peer-to-peer, in notorious circumvention of the law via pre-2001 Napster). It is the music without the vinyl, cassette, or polycarbonate plastic.

A *ringtone* is a digital file, generally not longer than thirty seconds, played by a cellular phone or other mobile device to alert the user of an incoming call or message. Back in the day, mobile carriers and other ringtone vendors distributed synthesized ringtones that embodied versions of musical works without the recorded performances of featured artists. The earlier forms of ringtones are commonly known as *monophonic* (having a single melody line) and *polyphonic*, having both melody and harmony. A ringtone will typically embody the "hook" of a song. Now mobile devices are capable of playing digital copies of commercial sound recordings, and as a result mobile device users demand ringtones that are actual portions of pre-existing recordings. These are known as *mastertones*, and mastertones have all but replaced monophonic and polyphonic ringtones.[9]

## Summaries of the Arguments

### RIAA's Arguments

The RIAA argued that ringtones are digital phonorecord deliveries, as defined by § 115(d), and subject to statutory licensing under the plain language of § 115 without limitation.[10] Ringtones in general and mastertones in particular contain no new original material and therefore cannot infringe upon the derivative work rights of the relevant songwriters.[11] Alternatively, if a ringtone is a derivative work, § 115(a)(2), the "arrangement privilege" of § 115, expressly authorizes its creation.[12] In any event, if the owner of the copyright in a musical work distributes or authorizes the distribution of a derivative ringtone based on the musical work, then that much of the musical work in the ringtone at least is subject to statutory licensing.[13]

### Copyright Owners' Arguments

The Copyright Owners argued that all ringtones are excluded from the § 115 statutory license, inasmuch as the license is narrow in scope and does not encompass ringtones. Furthermore, § 115 does not apply to ringtones because a ringtone uses only part of the underlying composition. Additionally, a ringtone is a derivative work and therefore outside the express language of the statute; § 115(a)(2) is unavailing because a ringtone cannot be considered an "arrangement" as that term is understood in the music industry. Finally, ringtones do not satisfy § 115's requirement that the phonorecords distributed thereunder be distributed for private use.[14]

## The Register's Decision

The Register found that ringtones (of all identified varieties) are phonorecords and that the delivery thereof by wire or wireless technology meets the definition of DPD set forth in § 115(d). A ringtone that is simply an excerpt of a preexisting sound recording falls squarely within the scope of the statutory license; one that contains additional material, however, might be an original derivative work and therefore outside the scope of § 115.[15] If a new ringtone is considered a derivative work and that new work has been first distributed with the authorization of the owner of the copyright in the underlying musical work, then any person may use the statutory license to make and distribute the musical work in the ringtone. Ringtones, finally, are made and distributed for private use even if some consumers purchase and employ them for the purpose of self-identification in public. Those ringtones covered by § 115 invoke all of the rights, conditions, and requirements of the statute; those ringtones outside the scope of § 115 must be the subject of voluntary licenses, if any.

Encapsulations of the Register's principal component analyses follow.

### Are Ringtones DPDs?

Register Peters had no difficulty finding at the outset that ringtones meet the definition of DPDs, noting that the issue presented was one of "pure statutory construction" and that there was no actual dispute on the point. A ringtone meets the definition of "sound recording" under § 101 of the Copyright Act, being a work that results from "the fixation of a series of musical, spoken, or other sounds"; the sound recording is fixed in the form of a "phonorecord," moreover, inasmuch as that term is defined by statute as a "material object in which sounds are fixed by any method now known or later developed." The phonorecord of the ringtone is the actual sound recording file stored as a download on either the cell phone's hard drive or its removable memory storage disk. Further, when downloaded via the Internet or by wireless transmission, a ringtone is part of a DPD, one type of "new technology" intended by Congress to be included when it enacted the DPRA.[16]

### Works versus Portions of Works

Rejecting the passionate argument of the Copyright Owners that § 115 is expressly limited to the making and distribution of phonorecords of "works" as opposed to portions of works, the Register ruled that an excerpt might qualify for the statutory license if all other requirements are met. "We believe that the Copyright Act's language and purpose are broad," the Register wrote, "and that 'portions of works' should be treated the same as any other type of work under Section 115." Section 115 does not expressly exclude "portions of works" from its scope, and the Register was unwilling to assume that such treatment was intended absent clear statutory language to that effect.[17]

### Marketplace Developments

According to the Copyright Owners, as related by the Register, the statutory license was "instituted to ensure a market where none existed, but there is an active market for freely negotiated licenses [for ringtones] already in place."[18] The RIAA disputed both the purpose of the enactment of § 115 (it was, the RIAA countered, to protect the market from a great music monopoly, not to create a market) and the existence of more than a single major ringtone licensing agreement of importance in the United States.[19] "The general success, or lack thereof, of the marketplace for ringtones is not dispositive, or even necessarily relevant, in this analysis," wrote the Register. "Commercial negotiations involving the use of copyrighted works cannot annul the force and effect of existing law, unless Congress explicitly so states."[20]

### Derivative Works

As an initial matter in this discrete analytical component, the Register agreed with the Copyright Owners that § 115, by its terms, concerns only the rights to reproduce and distribute phonorecords of works, "leaving derivative works outside its confines."

> Thus, consideration of the derivative work right is important only to the extent that a ringtone which is adjudged to be a derivative work cannot be licensed under Section 115. To be considered a derivative work, a ringtone must exhibit a degree of originality sufficient enough to be copyrightable. With regard to the appropriate legal test regarding copyrightability, we believe that *Feist* [*Publ'ns, Inc. v. Rural Tel. Serv. Co.*, 499 U.S. 340 (1991)] is controlling here. In *Feist*, the Supreme Court observed that "as a constitutional matter, copyright protects only those constituent elements of a work that possess more than a *de minimis* quantum of creativity," and that there can be no copyright in work in which "the creative spark is utterly lacking or so trivial as to be virtually nonexistent. [T]here are ringtones that may be considered derivative works because they exhibit a degree of originality and creativity. However, there are many other ringtones that would not be considered derivative works because they exhibit only trivial changes from the underlying work. Those ringtones would not be considered derivative works and would be within the scope of the statutory license.[21]

### Arrangements/"Fundamental Character"

For purposes of this discussion in the Opinion, "arrangement" referred to the musical aspect only of the work at issue, not to any lyrics. Even with that condition, however, "defining the parameters of Section 115(a)(2) is difficult because there is no precedent and there is no common ground [between] the parties regarding the appropriate definition of 'arrangement' for Section 115 purposes."[22] The Copyright Owners argued that ringtones are *abridgements*, not arrangements, of musical works, and therefore fall outside the § 115 license, as derivative works.[23] The Register accordingly referred to the earlier discussion and conclusion regarding derivative works, clearing the way for the greater part of the arrangement privilege analysis, focusing on the "fundamental character" question.[24]

The Copyright Owners asserted that, even assuming *arguendo* that ringtones qualify as musical arrangements, § 115 is inapplicable because the basic melody and fundamental character of the underlying work has been changed: ringtones exclude "large portions of the underlying works including much of the melody, verses, bridges, codas, and instrumental interludes."[25] Further, ringtones "transform artistic works into utilitarian substitutes for the ring of the telephone; the character of a musical work fundamentally changes when the 'original artistic vision expressed by the work in the form of a full-length song is superseded by a new purpose of serving as a thirty second mobile phone ringer.'" The RIAA argued that typical ringtones do not change the basic melody of a musical work, but rather, by their nature seek accurately to reproduce the basic melody with little or no alteration.

Section 115(a)(2), the Register observed,

> permits statutory licensees to make a musical arrangement of the work "to the extent necessary to conform it to the style or manner of interpretation of the performance involved," but the arrangement shall not "change the basic melody or fundamental character of the work." The Act's legislative history states that the provision was enacted to prevent the music from being "perverted, distorted, or travestied." The language of the statute was meant to avoid the desecration of the underlying musical work. Under the statute, it is reasonable to conclude that a portion of a pre-existing musical work truncated to ringtone length does not change the basic melody and fundamental character of the work. Certainly, this conclusion applies to mastertones, and it would almost always apply to monophonic or polyphonic ringtones that preserve the basic melody of the underlying musical work. As such, we cannot conclude that the musical work customized for ringtone purposes has been perverted, distorted, or travestied, as those terms are commonly defined, as no changes have been made to the melody of the original work. In sum, we do not believe . . . that the reduction of a work to a short excerpt fundamentally changes the overall character of the work or impugns the integrity of the work.[26]

#### Private Use

"A person may obtain a compulsory license only if his or her primary purpose in making phonorecords is to distribute them to the public for private use, including by means of a digital phonorecord delivery."[27] The private use limitation was added to § 115 "to clarify that manufacturers of specialty recordings for use in jukeboxes and business music services could not rely on the mechanical license in their use of musical works.[28] The Copyright Owners posited that the "private use" limitation contemplated by Congress includes only ordinary listening use for private enjoyment of music.[29] The Register was not persuaded, characterizing the argument as "inconsistent with the law" and ignorant of "common uses of music by individuals."[30] Inasmuch as the primary purpose of the ringtone distributor is not to distribute the ringtone for *public* use, § 115(a)(1) is not a bar to the inclusion of ringtones under the statutory license.[31]

#### First Use

The Opinion addresses first use last. Section 115 avails, the Opinion provides, when phonorecords have been distributed to the public in the United States under the authority of the copyright owner. The RIAA argued that a ringtone would be subject to statutory licensing after first use even if it were not otherwise covered by § 115(a)(2). That is, even if a certain musical work were outside the scope of the statute in the first instance, § 115 would apply to the new musical work nonetheless, once that version is first distributed by authority of the copyright owner. Assuming for the sake of argument that a ringtone-length version of a musical work is a derivative work outside the ambit of § 115, the music publisher would have the right to prevent distribution of that ringtone-length work. However, once the publisher allows one record company or ringtone distributor to distribute phonorecords or DPDs of that ringtone-length work, the "ordinary operation of Section 115 would then allow any person to obtain a statutory license with respect to the 'new' ringtone version in question."[32]

The Register found the RIAA's reading of the statue "a reasonable one."[33]

### Limitations

The RIAA asserted that the same conditions and limitations that apply to other phonorecords also apply to ringtones: first use of the song by the authority of the copyright owner; notice; and payment of royalties. The Copyright Owners, maintaining that all ringtones are excluded from § 115 as a matter of law, countered accordingly that there is no need for any limitation or condition on the licensing of ringtones under the statute. The Copyright Owners noted, however, that should the Register conclude that some ringtones are subject to statutory licensing, then the appropriate scope of such licensing would involve factual issues, the submission of which was prohibited in the instant reference.[34]

> *"One could hardly argue with the thoroughness of the Register's inquiry and analysis, even if one questioned the wisdom of applying to digital phonorecord deliveries a 100-year-old statute intended and enacted to preclude a monopoly over player piano rolls."*

The Register ruled that the general requirements of § 115 apply to all types of ringtones, including mastertones that are simple excerpts of the underlying musical work, ringtones not adjudged to be derivative works, and those ringtones that do not change the basic melody or fundamental character of the work. Newly created ringtones that have not been distributed to the public and that fall outside the scope of § 115 because they are derivative works or for any other reason will require a commercial license for their distribution. When it is unclear whether § 115 applies to a particular ringtone, a judicial determination will be required to address a mixed question of law and fact.[35]

## Conclusion

One could hardly argue with the thoroughness of the Register's inquiry and analysis, even if one questioned the wisdom of applying to digital phonorecord deliveries a 100-year-old statute intended and enacted to preclude a monopoly over player piano rolls. The Register herself acknowledged that "the concept of the cellular ringtone undoubtedly would have astonished the members of the 1909 Congress."[36] Still, the Register was constrained to find that "the license they devised was broad enough to include ringtones."[37] For the time being, it might not be the future calling your cell phone. It might be the past.

## Endnotes

1. Memorandum Opinion of Register of Copyrights Marybeth Peters, In the Matter of Mechanical and Digital Phonorecord Delivery Rate Adjustment Proceeding, Docket No. RF 2006-1, October 16, 2006, at 4. Available at http://www.copyright.gov/docs/ringtone-decision.pdf.
2. 17 U.S.C. § 115(d).
3. A "novel question of law" is one that has not been determined in prior decisions, determinations, and rulings described in Section 803(a) of the Copyright Act. See 17 U.S.C. §§ 802(f)(1)(B)(ii) and 803(a).
4. Mem. Op. at 1-2.
5. A ringtone is a short digital sound recording file distributed for use in a cellular telephone.
6. *Id*. at 2.
7. *Id*.
8. *Id*. at 1.
9. *Id*. at 5-6.
10. *Id*. at 2.
11. *Id*.
12. *Id*. at 2-3.
13. *Id*. at 3.
14. *Id*.
15. The addition of original material by the purported licensee would take the ringtone outside the scope of not only the arrangement privilege but also § 115 altogether.
16. *Id*. at 10.
17. *Id*. at 13.
18. *Id*. at 14.
19. *Id*. at 15.
20. *Id*. at 16.
21. *Id*. at 18.
22. *Id*. at 26.
23. The RIAA contested this conclusion.
24. *Id*. at 27.
25. *Id*. at 27-28.
26. *Id*. at 29, quoting 17 U.S.C. § 115(a)(2) and citing to H. R. Rep. No. 94-1476, at 109 (1976) and Preliminary Draft for Revised U.S. Copyright Law and Discussion and Comments on the Draft, House Comm. On the Judiciary, 88th Cong., Copyright Law Revision Part 3, at 444 (1964).
27. 17 U.S.C. § 115(a)(1).
28. Mem. Op. at 31, citing *Supplementary Register's Report on the General Revision of the U.S. Copyright Law; 1965 Revision Bill*, House Comm. On the Judiciary, 89th Cong., Copyright Law Revision Part 6, at 55 (Comm. Print 1965).
29. *Id*. at 32.
30. *Id*.
31. *Id*.
32. *Id*. at 32-33.
33. *Id*.
34. *Id*. at 33-34.
35. *Id*. at 34.
36. *Id*. at 11.
37. *Id*.

**Matthew David Brozik is a New York City lawyer and author who often forgets his cell phone at home. Adam Brozik assisted with the composition and arrangement of this piece.**

# The Bamiyan Buddha: The Tangible and the Intangible, a Confounded Relationship between Religion and Cultural Property

By Jason Noah Summerfield, Recipient, The Phil Cowan/BMI Scholarship

## The Bamiyan Buddha

There is a need to consider the cultural practices of any group when evaluating whether a cultural artifact should or should not be preserved. In 2001, the two standing Buddha statues of the Bamiyan Valley were destroyed by the Taliban. The global outcry and loss to our world's heritage was substantial. Nonetheless, it is important to acknowledge that the Taliban's actions were consistent with the social and religious structure they wanted to follow. A blind preservation of cultural and biological artifacts impairs cultural diversity and practice. Sometimes, objects must be lost and animals must be hunted to maintain a balance between the preservation of cultural property and the furtherance of cultural diversity.

The two standing Buddha contributed to an historical record that extends well beyond the borders of modern Afghanistan. They were part of the economic and cultural rise of civilizations along the Silk Road, a trade route extending from China to Rome. Furthermore, the Buddha represented the artistic achievements of one of the world's most dominant religions. These objects were the epitome of the world's heritage—powerful tomes to the achievements of mankind and irreplaceable relics from history.

*"A blind preservation of cultural and biological artifacts impairs cultural diversity and practice."*

The Himalayas were an impenetrable barrier along the Tibetan plateau, elevating the importance of the Indus River and the Gandhara culture, without which Buddhism could not have spread from India into China and Afghanistan. The Bamiyan Buddha were situated in Eastern Afghanistan, 2,500 meters above sea level. The two most significant statues attracted the attention of the international community. The smaller (37 meters) of the two was constructed in the Third Century A.D. while the larger (55 meters) was built about two centuries later.[1] The statues were largely carved right out of the sandstone cliffs with only certain added details consisting of mud, straw, stucco, copper, and wood. Their towering size held incredible sway over travelers and devotees of Buddhism. During the mid-Seventh Century, the Chinese-Buddhist traveler Xuanzang witnessed a thriving Buddhist culture in the Bamiyan Valley, marveling at the two standing Buddha, which at the time were adorned with gold and fine jewels.[2]

The Bamiyan Valley satisfied five of the six cultural elements easily qualifying for an inscription as a cultural landscape onto the United Nations Educational, Scientific and Cultural Organization ("UNESCO") World Heritage List in 2003.[3] The UNESCO World Heritage List contains objects 1) of "outstanding universal value" and 2) that meet one of ten criteria[4] of either cultural or natural significance. The two standing Buddha acted as an anchor-piece of the greater Bamiyan Valley, itself adorned with monasteries, small caves, and murals. The flowing robes draped over the Buddha[5] are fantastic examples of art in the Gandharan style, a combination of "Hellenistic or Graeco-Roman artistic techniques and modeling with Indian Buddhist iconography."[6] Even after 1,500 years, the rich, textured folds were distinct reminders of the care and detail that went into the carving.

Over the centuries, the statues embodied resilience and permanence. They survived invasion and attack from the likes of Genghis Khan during his march across Asia,[7] Aurangzeb (the last Mughal emperor), and Nader Shah of Iran whose army conquered Afghanistan in 1738. Then the Taliban seized control of the country. In 2001, that resilience, "after weeks of inept attempts to obliterate them with anti-aircraft guns and rockets,"[8] gave way to the Taliban's agenda.

For whatever reason the Taliban destroyed the Buddha, the animus directed at the objects was apparent, and the permanent loss to the world's religious and cultural heritage was unquestioned. The Taliban's plan was dubbed "a move into absurdity" by Koichiro Matsuura, the Director-General of UNESCO.[9] The Organization of Islamic Conference and Kofi Annan urged the Taliban to cease in their activities and spare the relics.[10] Furthermore, none of the countries that recognized the Taliban government, including Saudi Arabia, Pakistan, and the UAE, officially condoned the destruction of the Buddha.

## The Taliban Justify Their Actions

There were conflicting motives for the demolition of the Bamiyan Buddha—one of retaliation and one of religious fundamentalism. While the former is a misuse of secular reasoning and global politics, the latter is now a familiar mantra, politically motivated, full of intensity, fervor, and approaching mythic status.

### Retaliation

For the Taliban, the general disregard for the welfare of the Afghani population by Western states justified the demolition. An offer made by Philippe de Montebello, director of the Metropolitan Museum of Art in New York, to remove the statues from Afghanistan lacked any ameliorative effect.[11] Sayed Rahmatullah Hashimi, the then Taliban Ambassador-at-Large, pointed to the Swedish insistence that aid money was specifically to be used to preserve the statues instead of the Afghani population. He claimed that the Swedish position ignored the human situation in Afghanistan. The Taliban deemed the emphasis on the preservation of the Buddha over the local population to be unacceptable.[12]

The available aid was unable to generate significant change in the quality of life amongst the Afghani people. An entire population of children faced death as the winter months approached. Up to four million Afghanis were "on the brink of starvation."[13] Hundreds of thousands of refugees were compelled to cross Pakistani borders.[14] This enabled the Taliban to conclude that starving children would not effect any further allocation of aid funds from Western countries. The Taliban destroyed the Bamiyan Buddha in response to the general disinterest to the plight of the Afghani population.

The Taliban mullahs thus saw an international community that was interested in the Buddha statues without any regard or remorse for the million Afghanis that would inevitably die of starvation during the upcoming winter. They declared that "If you are destroying our future with economic sanctions, you can't care about our heritage."[15] Noorullah Zadran, a former spokesperson for the Taliban, noted that the Taliban "would like [the] world community also to see our plight. Day by day [Afghanistan is] getting sanctions from the United Nations and every day babies are dying and no one is coming to our aid."[16] Mullah Mohammed Omar once favored the preservation of the statues and recognized that they were a significant tourist attraction,[17] but he too espoused the destruction of the Buddha.[18]

### Religious Beliefs

There is another story coming out of Afghanistan that is more telling and ultimately more controversial. The Taliban's actions were consistent with religious practice. The destruction was merely incidental to and "in accordance with Islamic law."[19] In March of 2001, the Supreme Court of the Islamic Emirate declared that: "all the statues around Afghanistan must be destroyed. All the statues in the country should be destroyed because these statues have been used as idols and deities by the non-believers before. They are respected now and may be turned into idols in the future too. Only Allah, the Almighty, deserves to be worshiped, not anyone or anything else."[20] Pursuant to this decree, Mullah Omar publicly decried: "The real God is only Allah, and all other false gods should be removed."[21] The Taliban thus proceeded to demolish all Buddhist iconography within Afghanistan.

According to the Foreign Afghan Minister Wakil Ahmad Mutawakel, the Buddha were simply the targets of a widespread policy of censorship and suppression; this was no different than gender discrimination, hosting Osama bin Laden, or imposing the death penalty on converts to Christianity or Judaism.[22] Noorullah Zadran asserted that the demolition was part of a larger promise made to the Afghani people "when they came on the scene . . . to implement a pure Islamic government."[23]

Mullah Quadradullah Jamal, Culture and Information Minister to the Taliban, aligned himself with the Taliban's pursuit of a religious-fundamentalist state. Mullah Jamal asserted that "The statues are no big issue. They are only objects made of mud and stone."[24] His comment, while establishing a precedent of ambivalence towards history in Afghanistan, also increased the importance of modern religious and cultural practice amongst the Afghani people. This is particularly significant because Mullah Jamal was, in fact, a caretaker of culture, and yet he was still perfectly capable of disregarding the history of the statues.

Religion played a central role in all facets of the Taliban's regime. Using Islam as a reason, the Taliban were capable of destroying thousands of Buddha statues in favor of the religion and culture they hoped to practice.

## Limited Property Rights of Cultural Relics

We see the destruction and perpetual risk of important archaeological and cultural works time and time again. Nation states are not always the best caretakers of the world's heritage. And yet, nationalists maintain that the objects are to remain in situ "*even if* destruction by neglect is certain."[25] Nationalist theory looks past the dark history, accepts the risks, and holds that cultural property is inalienable and must remain in its original place. It is apparent that under certain circumstances, the nationalist theory places the world's heritage in grave danger of disappearing. If national boundaries have any influence on the protection of cultural property, Afghanistan is left free to do as it pleases with the mud and stone artifacts that rest in its borders. That is unless the nationalist perspective is eliminated from consideration when the world's heritage is at stake.

It is well accepted that an owner of cultural property does not have absolute dominion over the object. "No civilized state, in the sense of article 38(c) of the Statute of the International Court of Justice, recognizes the right of the private owner of an important work of art to destroy it as part of the exercise of a supposedly unlimited right of private property."[26] A slew of international organizations, tribunals, committees, and courts recognize the importance of cultural property in times of conflict, both domestic and international. They have established doctrines designed to prevent not only calculated strategic attacks against specific targets but discriminatory acts of persecution against a particular group of people and that group's heritage. The International Criminal Court ("ICC") regards such acts against the religious identity of a class of people as a "crime against humanity."[27] The protections afforded cultural relics are essentially a matter of customary international law[28] and are binding regardless of whether the antagonist country is a partner to any relevant treaty or pact, including the 1972 UNESCO World Heritage Convention[29] or the 1954 Hague Convention which established the ICC. However, the strength of these conventions is questioned because the signatories that cause the most concern are those who are the least likely to give any accord to international treaties. The injustice here is aggravated because Afghanistan was in fact a signatory to the 1970 UNESCO Convention.[30]

*"If discovered in the United States, the pieces could be subject to the import restrictions of the Cultural Property Implementation Act ('CPIA') as a religious monument."*

The acts against the Bamiyan Buddha even fall outside of the 1977 Geneva Convention that prohibits attacks on cultural property in both external and internal conflicts[31] since, even as an object of reprisal,[32] the destruction was not part of a military maneuver. The Taliban's conduct more closely resembles an intentional act of persecution against a religious group and a crime against humanity more than the situations covered by the Geneva Conventions. Like the ICC, the Geneva Conventions serve little purpose since there are no Buddhists left in Afghanistan to persecute.

The Hague Tribunal accounts for much of the internal strife that plagues the modern world. An attack on a protected object is a "war crime"[33] under the ICC. That article is controlling for "armed conflicts" that are "not of an international character." However, the situation in Afghanistan may not fall under the Hague Tribunal, since the circumstances the country faced at the time do not qualify as "armed." While suffering and starvation was widespread, the conditions were neither a product of, nor were they associated with, any "armed conflict" in the ordinary sense of the phrase. Most significantly, while a potentially effective tool for prosecution, a criminal tribunal only serves to provide reparations and retribution after the fact, after the world's heritage disappears. These institutions lack an effective means to prevent radical measures from being taken against cultural relics, leaving world leaders in a position where they have to beg for an object's preservation.

### The Future of the Buddha Fragments

The question still remains: what is going to happen with the fragmented remains of the Buddha? The pieces are perpetually at risk of entering the illicit international art market, increasing the difficulty of the rebuilding process. Afghanistan's interim Prime Minister Hamid Karzai vowed to rebuild the statues.[34] Though funding has not been fully secured, UNESCO is committed to aiding in the process and utilizing the remaining fragments as much as possible in the reconstruction. A group of specialists representing the International Council on Monuments and Sites ("ICOMOS") made a "concerted effort to preserve what is left [of the monuments], to safeguard the rock, to look for the fragments of the Buddhas, of which there are many," and generally assess the statues after their destruction.[35]

Unfortunately, these restoration measures may not effectively curb any international trade in the fragments. If discovered in the United States, the pieces could be subject to the import restrictions of the Cultural Property Implementation Act ("CPIA") as a religious monument.[36] Any eligible object imported into the U.S. is then subject to seizure and forfeiture.[37] The Act is a significant barrier against the importation of the Buddha fragments. However, this restriction does not hinder illegal importation.

The National Stolen Property Act ("NSPA")[38] targets the importation of stolen goods. A criminal conviction under the NSPA requires that 1) the objects be stolen, 2) the possessor must "know" of the objects' true disposition and 3) the source nation must establish clear and unequivocal ownership.[39] The second element is transparent, as it is highly unlikely that any collector of the remains is not aware of their dubious history. The first and last elements, however, are elusive. "The NSPA applies to property that is stolen in violation of a foreign patrimony law."[40] While certainly capable of exercising control over the Buddha, the Taliban did not necessarily claim any title or ownership, an essential prerequisite towards a criminal conviction in America.[41] Although the statues resided within the modern borders of Afghanistan, the Taliban, if anything, disavowed any ownership over the objects due to the nature of the manner in which they exercised dominion over them. Furthermore, the NSPA's reach is limited to pieces with a value exceeding $5,000. The precise value of a particular piece is hard to determine because the Bamiyan fragments have not been openly tested on the international market.

Customarily, the judiciary is required to pay deference to the independent decisions of foreign governments under the Acts of State Doctrine.[42] If the Taliban asserted some ownership interest in the Buddha, American courts must respect that assertion. However, the Acts of State Doctrine does not apply here because the Taliban government was not recognized by the U.S. In fact, the U.S. did everything in its power to overthrow the Taliban and succeeded. The refusal to recognize the sovereignty of Afghanistan in 2001 may enable Buddha fragments that left the country during the Taliban's regime to illegally enter the domestic art market.

### Cultural Diversity: A World Heritage that Is Not Ancient

The circumstances leading up to the destruction of the Bamiyan Buddha require a critical inquiry into the normative choices that must be made with respect to other cultural relics as well as the current state of domestic and international law. This analysis encompasses not only a review of the current state of cultural property preservation, but also a rationale behind the consideration of cultural interests of real and diverse peoples in future cases.

While it is easy to criticize the Taliban's actions and lack of concern for art and culture, one must consider that its cultural norms were averse to these statues because it violated many of the fundamental rules against idolatry in their own religion. The world, concluded Noorullah Zadran, should "try to understand our way of life, our culture, our religion so this way we can reciprocate."[43] The Taliban was lost, albeit irrationally, between the continued proliferation of Islam and a religious scion that demanded the annihilation of another culture.

Successful preservation efforts occur when nations recognize the importance of certain objects to the world and are willing to take the appropriate measures to safeguard those treasures that lie in their borders. Through sheer "financial dominance,"[44] internationalist theory accounts for the serious gaps and capacity issues that many third-world and source nations face. This intervention is exceptionally important in countries where heritage protection is a low priority. However, this protection cannot be limited to tangible objects without sacrificing some "mutual appreciation of cultural diversity,"[45] which is a core component of internationalist theory.

The Native American Graves Protection and Repatriation Act (NAGPRA)[46] raised a similar conflict in the United States. Through this act, Native American tribes are entitled to reclaim the remains of their ancestors from museums and federal agencies and then rebury them accordingly, often in secret. This last aspect, while decreasing the likelihood of grave-robbing, also and perhaps most importantly allows Native American communities to practice ancient customs and pay proper respect to their ancestors.

People are thus capable of recognizing not only the significance of the cultural artifacts themselves but also the importance of certain objects as part of the cultural experience and a way of life. This is an important policy which recognizes that culture is not an ancient concept. It is current and alive; to discourage its practice decreases the richness and scope of not only our lives, but that of the generations to follow. Thus a choice must be made: surrender to gaps in knowledge through the disappearance of cultural property or accept the loss to cultural diversity caused by a failure to acknowledge a practice's import.

Now we must ask ourselves: Who are we to suggest that Islamic cultures should not be afforded the same respect?

A developed and enlightened society should be able to make room for even the most extreme ideologies, for that acceptance stands as the true test of a democratic world, even if and especially when those positions are highly adverse to more dominant powers. Exceptions are not a matter of discretion. How is the Western world to deal with deliberate acts by contrary powers that affect the heritage of mankind? If necessary, can we appropriately protect cultural relics while respecting local custom without provocations of violence or a declaration of war?

One of the tragic ironies of the Buddhas' destruction is that they were built by the Kushans and later the Hephtalites,[47] the same ethnic groups that constituted much of the Taliban. This additional property interest generates two rationales behind the Taliban's exercise of control over the Buddha. The Taliban's ancestors carved the Buddha, and their destruction was consistent with a radical fundamentalist ideology. Religious practice fed both the creation and the destruction.

While there is much to assure the world that there are measures to ensure the safety of cultural property, there is little on point to cover the circumstances faced in Bamiyan. The scope of the 1972 UNESCO Convention's[48] considerations are limited to the tangible components of our history and environment, which in effect can neglect the very real experience of people whose daily lives are impacted by this history. This is disrespectful, risky, and unfair. The mere establishment of the UNESCO World Heritage List is insufficient on its own to remedy and prevent the potential losses. UNESCO should be responsible enough and possess the necessary foresight to branch out of its current role and accordingly weigh the interests that need to be taken under consideration in the future.

The impact of decisions regarding the disposition of cultural and biological artifacts does not begin and end with the preservation of that object. The surrounding and often niche cultures are also affected. Assessing the proper course of action to take with regards to the future of a particular object demands a balancing of several factors: the cultural and historical significance, the biological and ecological importance, the potential loss of knowledge, the likelihood of committing a crime against humanity or other violation of international law, the impact on religious and cultural practice, the impact on local and national tourism, other government interests, frequency or rarity, and aesthetics. This also demands an appreciation of the multitude of interests brought forth by the international community as well as more local concerns with diversity, religion, and cultural practice.

> *"Somewhere, policies regarding world heritage and history must recognize that culture is a living-breathing thing."*

Somewhere, policies regarding world heritage and history must recognize that culture is a living-breathing thing. Some restrictions only serve to decrease the wealth of available knowledge and limit cultural practice. The losses are exacerbated as generations grow old and are unable to pass on the knowledge and experience of their ancestors. It is at this juncture where insights into co-existence, eco-systems, survival and culture are lost forever.

## Endnotes

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New York State Bar Association

# Entertainment, Arts and Sports Law Section Annual Meeting

**Monday, January 22, 2007 • New York Marriott Marquis**

**Section Chair**
Alan D. Barson, Esq.
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**Program Co-Chair**
Michele C. Cerullo, Esq.
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**Program Co-Chair**
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## "The Impact of Digital Technologies on the Entertainment Business"

**Welcoming Remarks**

**Section Chair**
**Alan D. Barson, Esq.**
Law Office of Alan D. Barson
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**Program Introduction**

**Program Co-Chair**
**Michele C. Cerullo, Esq.**
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**Program Co-Chair**
**Tracey P. Greco, Esq.**
Delia's Inc.
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## Old Wine in New Bottles: Digital Distribution of Audio Video Content to Mobile Devices

**Panelists:**

**Barry D. Skidelsky, Esq.**
(Moderator)
Attorney at Law
New York City

**Paul V. LiCalsi, Esq.**
Partner
Sonnenschein Nath & Rosenthal LLP
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**Jeffrey D. Neuburger, Esq.**
Partner
Thelen Reid Brown Raysman & Steiner LLP
New York City

**Charles Wright**
VP, Business and Legal Affairs
A&E Television Networks
New York City

## YouTube and MySpace.com: Internet Socializing Communities or a Breeding Ground for Litigation?

**Panelists:**

**Stanley Pierre-Louis, Esq.**
Kaye Scholer, LLP
(Moderator)
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**Kenneth M. Kaufman, Esq.**
Partner
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**MR. BARSON:** Good afternoon. Welcome to the 2007 Annual Meeting of the Entertainment, Arts and Sports Law Section of the New York State Bar Association. I'm Alan Barson. I'm the Chairman of the Section. And today, the topic is "The Impact of Digital Technologies on the Entertainment Business." We have a little bit of Section business to deal with before that, before we get to this amazing program. I'd first like to introduce Susan Lindenauer from the New York Bar Foundation who's going to talk about some of the wonderful work that they do.

**MS. LINDENAUER:** Good afternoon. I promise not to take more than the three and a half minutes that are allotted to me.

I am one of the officers of the New York Bar Foundation, which is a non-profit grant-making entity of 501(C)(3) that makes grants to a variety of entities in New York involved in enhancing professional competence, aiding in the delivery of legal services, improving the justice system and the law, and increasing public understanding of the law. In essence, the Bar Foundation helps lawyers meet their obligations under the Code of Professional Responsibility by making seed grants to a variety of organizations.

In 2006, the Bar Foundation made 55 grants totaling a little over a half million dollars. Over the years, millions of dollars have been given to provide seed money, assistance to a variety of other non-profit organizations, and to support the work of the Bar Association in enhancing public understanding of the law in a variety of ways.

The types of grants that the Bar Foundation makes include things like the Domestic Violence Program of the Capital District Women's Bar Association, the Tel-Law—implementation of the Tel-Law capabilities of the Legal Aid Society of Mid-New York, assisting the Legal Aid Society of Rochester in developing an immigration program, providing money for the mock trial program that is sponsored by the State Bar Committee on Law, Youth and Citizenship, and assisting the State Bar Minorities in the Profession Committee in undertaking research and report on minorities in the legal profession in this state. That's just a small sample of the types of grants that were made in 2006.

What is the Bar Foundation other than a 501(C)(3)? It's an organization made up of people who have been active in the State Bar. It has a board of people who have been active in the State Bar, but it's a separate entity. It's supported in a variety of ways. There are Fellows of the Bar Foundation who've made a commitment to, at a minimum, make contributions, charitable deductible contributions of $2,000 a year over a period of 10 years.


There are other ways that the Bar Foundation is supported. Each of you, when you renew your membership in the State Bar, will see a little box saying "check-off, $25" to the Bar Foundation.

In addition to that, there are gifts that are given to our Foundation by Sections of the State Bar that are fortunate enough to have surpluses in their budget. If this Section is one of that sort, then I do hope you will consider undertaking that process. If not, I hope those of you who are nominated to be a Fellow will accept that nomination and participate.

And those of you who want to recognize a fellow lawyer who has achieved something will make a contribution in that individual's honor. Unfortunately this past year, I lost three close colleagues who were members of the Bar, and in each instance, I made a memorial gift to the Bar Foundation. It's not the happiest occasion, but it's a way to recognize someone who is a member of the Bar and who's made a substantial contribution.

And we also have a deferred giving program. I really think that the Bar Foundation is an important part of the work of lawyers in this state because it helps to support an array of civil legal services programs by providing seed money.

It helps to educate young people in middle school and in high school through the mock trial programs and essay programs and through providing money to educate teachers during summer training about the law.

It also supports a variety of important projects of the Bar Association. It is something that I hope all of you will participate in, and if you are interested, you will—you can step outside after your program is over and go to the desk of the New York Bar Foundation and the 2006 Annual Report, hot off the press, will be available for you to pick up.

Thank you for your time, and I hope that you have been persuaded to participate.

**MR. BARSON:** Thank you, Susan. The Bar Foundation does some great things, so at the very least, please make the additional contribution.

So everybody got a program today, and what would be terrific is if you could all open them up to the first page, well, I guess it's the third piece of paper in there, which says "The Executive Committee" and look at the names here, and everybody whose name is on this page, would you please stand up. Those are the officers and the Executive Committee of the Section. Every one of them is wearing a little yellow ribbon that says "Ambassador," and please make an effort to get to—for those of you who don't know the Section officers and Committee Chairs and the District Representatives, please make an effort to come up to them. We've put ribbons on them so they're easy targets. You'll see them at the cocktail reception immediately afterwards. Hopefully, you'll all be there. And find out from them what's going on; give them a chance to get to know you.

There's a lot of networking going on. Gives you an opportunity to know who the members are of the Executive Committee. They really are the engine who run this Section.

To cut down on your having to listen to me today, I summarized all of the activities of the Section in my Letter from the Chairman, on the cover of the *EASL Journal* in the last issue. It was also e-mailed to all of you. It's been an extraordinary year for this Section, probably the most active one we've had yet.

We had an enormously successful collaboration with the CMJ Music Marathon in the fall as our Fall Meeting, hugely successful. We had a great Spring Meeting this past year at the Yale Club. We collaborate with the Fordham Sports Law Forum and do a wonderful program with them every year, and we had a couple of pages, as you saw, worth of meetings.

So there's roughly something going on about every three weeks in this Section. Lots to tap into, lots to get out of, in addition to really easy and inexpensive CLE credits, a real chance to get involved.

These meetings don't happen by themselves. The Executive Committee, the Committee Chairs give a lot of their time and effort.

We get a tremendous amount of support from Juli Turner in Albany. Juli Turner is our Section liaison in Albany, and we're only one Section assigned to her, but we absolutely kill her with things that we ask her to do for us, and she kills herself in doing a great job, day-in, day-out. She's there for us.

Christy Douglas is also our meetings coordinator and has coordinated this meeting, has also done an extraordinary job in setting up our cocktail party, handles all of our Section-wide meetings.

Again, there's a lot of people involved, so take an opportunity to get to know them because they're the ones that are giving value to your Section membership and giving you an opportunity to really get something great out of it.

This time every two years, there not being an election this year, it's really the privilege of the serving Chairman to acknowledge the Immediate Past Chair, Elissa Hecker.

You just want to come up here so those of you have short memories or those of you who just joined us will remember Elissa, who was Chair for two years before me. Set a lot of great plans into motion at that particular time, which you're seeing the benefit and result of now.

Ordinarily, we have a beautiful Tiffany clock that we would present. It's being delivered now, so we'll actually give Elissa the clock, beautiful engraved clock, at the cocktail reception afterwards. But I wanted Elissa to come up, and everyone, please acknowledge her and say thank you.

And Elissa also, in addition to being our *Journal* editor, co-chairs the Pro Bono Committee, and you have a presentation to make, so I'll turn it over to you, with Elisabeth Wolfe, who's coming up here. So we're going to segue right into that.

**MS. HECKER:** Thank you, Alan. This is Elisabeth Wolfe. She's my Co-Chair and the original Chair of the Pro Bono Committee from its inception.

As most of you are aware, President Mark Alcott started the Empire State Counsel Program, which provides pro bono service to those unable to afford counsel and to further the New York State Bar Association's goal that every lawyer renders 50 hours of free legal services annually. We congratulate the EASL attorneys who have made that list this year, and we congratulate them wholeheartedly. We support their work.

**MS. WOLFE:** In furtherance of this goal to provide legal services to persons of limited means, we are thrilled to announce our partnership with the Intellectual Property Law Section, to offer pro bono services specifically for artists and art-related organizations. This groundbreaking partnership also enables our two sections to offer pro bono liability insurance for attorneys who volunteer through our programs.

So what this means is that in-house counsel and solo practitioners, among others, who previously had not had pro bono liability coverage, may now become part of our efforts to promote pro bono as a Section.

**MS. HECKER:** What we're doing right now is trying to figure out with what arts organizations we'd like to start working.

If there are any suggestions, please e-mail Elisabeth or myself. Our contact information is on the website and in the *EASL Journal*, and we'll be sending further information via e-mail through the Pro Bono Update, the *EASL Journal*, and the website, so that those of you who are interested in continuing to volunteer and those who haven't volunteered with us because of the liability issue, please contact us now, and sign up. We will be contacting you shortly with more details. Thank you.

**MS. WOLFE:** Thanks.

**MR. BARSON:** The Empire State Program that Mark Alcott wrote to everybody in the Section about is a wonderful program. I really encourage everybody to get involved. It is 50 hours of pro bono. It's a healthy commitment, but it makes a difference. There is no mandatory pro bono in this state yet. Everybody getting involved will keep that from happening, but everybody needs to do their share. We're lawyers. We have an obligation, a moral and ethical obligation to give back to the community, and I encourage you all to do it.

Having the insurance for those who don't have insurance for whatever reason, makes it practical for a lot of entertainment, art and sport lawyers to get involved with this simply because it's not practical for a lot of us to do, landlord and tenant court, where there's a lot of pro bono work available.

But there are things that we can do, and this is a way to do it. So thank you for making it so easy for us to get involved.

Next, I'd like to introduce Judith Bresler, a former Section Chair and Co-Chair of the ADR Committee, who's going to talk a little bit about the Phil Cowan/BMI Memorial Scholarship award that we're going to present. And we're almost done with the administrative part, so hang in there.

**MS. BRESLER:** It's not just myself, it's also Gary Roth from BMI. First of all, is Jason Summerfield here? Jason, come on up.

Looking out over the audience, I can see that there are a number of you who are new, and that's wonderful, but it also means you haven't the faintest idea of what the Phil Cowan/BMI Memorial Scholarship is, so I will give you a very quick summary.

Phil Cowan was a very much beloved entertainment lawyer who was one of the former Chairs of our Section. And he was also, at one point, the managing partner of the law firm Cowan, DeBaets, Abrahams & Sheppard. He died precipitously, and we wanted to honor his memory. And knowing Phil, we thought that one of the best ways that we could honor his memory was to create a scholarship in his name.

The scholarship is awarded on a yearly basis. It is based on a writing competition. It is open to all law students in the New York State area, as well as a couple of law schools and students in New Jersey.

And BMI, through Gary Roth, who's also been a longtime member of our Section's Executive Committee, also volunteered to join us in our enterprise. And so BMI, in conjunction with the Entertainment, Arts and Sports Law Section, issues each year a joint award to one or two winners of a writing competition.

The purpose of the writing competition is to award a law student who commits to practice in the area of entertainment, art, or sports law, all three areas dear to Phil's heart. And the recipient this year, we're pleased to say is Jason Summerfield.

Going to just quickly tell you a little bit about Jason. Jason is a second-year student at New York Law School, where he is the co-founder and Editor in Chief of the *New York Law School Artists Collective*. He spent this past summer in Cape Town, South Africa where he studied both law at the University of Cape Town and worked closely with the South African Jewish Museum on a major exhibition of Japanese Netsuke and metalwork. Jason studied music, business, and history at New York University, earning his undergraduate degree in 2005.

It is through his experience with old and rare books, however, that he became interested in the more global interactions between society and our cultural and biological heritage and, subsequently, the topic of this paper, which you will be reading in the Spring issue of the *Entertainment, Arts and Sport Law Journal*. (p. 18)

Jason is also an accomplished musician, proficient in classical piano and upright bass, among other instruments. He's worked on student films and commercials, and has been in a variety of orchestras, concert groups, and small ensembles, performing throughout New York, New Jersey, Florida, and Switzerland. Gary, would you like to make the award and just tell us a word or two about BMI?

**MR. ROTH:** Thank you, Judith. I won't go into a program-length commercial, but what I will say is for those of you not in the music business who probably don't know about us, we're the world's largest organization representing songwriters, composers, and music publishers to assure that they get paid royalties for the public performance of their music.

If you want any more details, we have a website at BMI.com, chock-full of information. We are pleased to be a sponsor with the Entertainment, Arts and Sports Law Section of this writing competition. We hope it will grow and flourish in the years to come.

And I congratulate Jason as this year's winner. So, Jason, if you'll come up for the photo up here. Congratulations.

**MR. SUMMERFIELD:** Thank you.

**MS. TULLY:** Good afternoon and welcome. My name is Rosemarie Tully. I am Chair of the Membership Committee of this Section. Just a couple of thoughts for you while you're here today. You're here for another fabulous program. We have a Fall Program and a Spring Program, but you may not be aware of all of our Committee programs. So I encourage you strongly today to

consider joining one of the many fabulous Committees. It's just as easy as going to the website, which is nysba.org/easl. Take an easy trip there and take a look at what we've got going on.

I do encourage you all as well, if you have any questions, suggestions, this is your Section. There are a number of us with Ambassador tags, members of the Executive Committee, please approach us; let us have your thoughts. We are always open to comments. And once again, thank you.

**MR. BARSON:** Thanks, thanks, Rosemarie. Rosemarie does a terrific job with Membership. Again, there's a lot involved with this, but I won't bore you with the details, but we say thank you. Rosemarie's been our Membership Chair for a number of years and will hopefully continue to do so.

The cocktail party immediately following this program is sponsored in part by XM Satellite Radio. Unfortunately, their commitment didn't come through in time to be included in the material, so I did want to announce it.

We say thank you again to XM. They've been—this is the third year in a row they've been sponsoring or co-sponsoring the cocktail party. There will be another Friends and Family promotion, basically, cheap radios that you get.

If you look in the *EASL Journal* later this year, there'll be a full-page ad which will give you the information. If you want XM Satellite Radio, that's the way to do it. It's a pretty cool service.

So I think that really brings us to the meeting. That closes the administrative part. Thank you for suffering through all that, but it is very important. There are a lot of people who do a lot of behind-the-scenes work in the Section to make it tick, and they do need to be recognized. And it's good that you all know what actually goes on in your Executive Committee.

So I'd now like to introduce our program co-chairs, Michele Cerullo, Tracey Greco, and Joyce Dollinger, who put together today's fantastic program, and I will turn it over to them. And enjoy the show.

**MS. CERULLO:** Okay, I'm going to be two seconds. We have a great program here today. Thank you all for coming. I'm now just going to turn it over to Tracey who's going to then introduce Barry, who's going to then introduce the panel.

**MS. GRECO:** Hi, good afternoon, everyone. Thank you, everyone, for coming. I'm going to introduce Barry Skidelsky. He is a New York City-based attorney with his own private practice. His principal clients are in entertainment, media, telecommunications, and technology. Barry also offers his services as an arbitrator and expert witness, and he is currently our Co-Chair of the Television and Radio Committee.

**MR. SKIDELSKY:** Thank you, Tracey.

**MS. GRECO:** Barry.

**MR. SKIDELSKY:** I want to thank the Program Committee Co-Chairs, I'd like to thank Alan as Chair of the Section, thank my Co-Chair, Pamela Jones, and let me put in a brief word for the Television and Radio Committee.

We are currently firming up the details, and I'm asking you to grab a pen if you're interested and write down a save-the-date date, which would be Tuesday, February 27th, noon to 2 P.M., another great CLE lunch, this time on reporter's privilege by Victor Kovner of Davis Wright Tremaine. This promises to be an excellent program, and I urge you all to attend. In addition, that program will be co-sponsored by the Litigation Committee of which Paul LiCalsi, one of our speakers here today, is also a Co-Chair.

My role here today will be as moderator. I intend to give you a brief overview of what we're going to be talking about, and per request from a few other lawyers on the Executive Committee, give you a brief Technology 101 for Lawyers. Feel free to interrupt us at any time with questions, although we will have a Q and A at the end.

Today's topic, "The Impact of Digital Technology on Entertainment, Law and Business," Panel 1 in front of you now is subtitled, "Old Wine in New Bottles: Digital Distribution of Audio and Visual Content to Mobile Devices." Obviously, it's all about content and distribution.

As everyone knows, the law lags technology. We're always playing catch-up, which is particularly problematic when we have disruptive technology as we do today with an accelerating pace of change, witness growing pains endured by the big boys under the MPAA and RIAA, motion picture and recording industry associations. And it wasn't that long ago we were talking about "new media."

It seems to be that the distinctions between traditional old media and new media are disappearing. Any day now, I expect we'll just be talking about media again.

Likewise, one of the buzzwords from the recent past, which is light years in Internet time, is that of convergence, convergence referring in my mind to the convergence of communications and entertainment, technology being the common driver between this proliferation of distribution channels.

When you think about it, you have the content and you have the distribution. Now on the content side, you're really talking about content created by traditional programmers and suppliers, as well as of more recent note, user-generated content, more of this anon.

In addition, there is that separate issue about advertising, and to some skeptics, we can't really distinguish between commercial programming and the advertising itself. The next thing besides the content itself, to me, is the delivery mechanism. That's the transmission capabilities

if you think about it in terms of pipes, not actual pipes, but virtual pipes, if you will, in some case actual.

We have telephone and cable as the traditional wired world, the traditional twisted copper pair of telephone and cable which is upgraded practically everywhere to fiber-optic cable. In addition, you have satellite and you have the traditional television and radio companies' broadcasters licensed through the FCC, the Federal Communications Commission.

I'm also a past Co-Chair of the FCBA, the Federal Communications Bar Association, here in New York. So I think I bring a unique perspective to try and help non-tech people understand and lawyers help understand the drivers behind the changes that the entertainment business is going through.

We traditionally had the telephone network as a switch network be replaced now by what we call packet service, where it's all about bits, bits of data. Data could be audio, could be video, could be information. It's all being digitized into little packets and sent out very efficiently and being reorganized at the other end so that there's no more issues like hiss on FM or loss of data.

When I look at these transmission capabilities, I tend to break them down in my mind into wired and wireless. Wireless people have heard these terms WiFi, WiMAX, 3G. What's that all about?

Well, cellular technology, cell phone technology in this country started out as an analog service, moved to digital with PCS, and now is evolving into the 3G, the Third Generation, with advance services emerging. You may be aware that the wireless carriers led by Verizon and Sprint, notably, now are offering TV clips into your cell phone. Verizon's got a service called VCAST and Sprint is MobiTV.

All of this is resulting from an increase in broadband capability. When you think about all of this information, all of this content, whether it's entertainment information or otherwise, it's really just about bits per second going through a pipe.

So as the technology advances, we, in effect, have wider or fatter pipes so the stuff can flow through faster. And that's why you're starting to see now municipalities getting involved. There have been some reports about Philadelphia wanting to provide as a municipality WiFi service to citizens, and this, of course, offends the cable companies and telephone companies, particularly when there's franchises involved. The federal and state franchising authority contest is heating up again in this digital era.

Recently, Verizon just got its first, I believe, statewide franchise from New Jersey to provide its television service, FiOS, to the entire state. The Philadelphia municipality WiFi endeavor that I mentioned required a compromise to settle some litigation, details of which I won't go into here.

All of this stems from the Telecommunications Act of 1996, the main thrust of which was to promote competition among communications providers and afford consumers choice.

Today, consumers want to be able to decide what content they want to view or listen to, where, when, on what device. You see advance services rolling around now where there's an increasing level of interactivity and personalization.

The stuff we're doing here in the United States, from the traditional broadcasters on television going into DTV or HDTV and radio doing high-definition radio, HD radio with multi-casting channels in order to compete with cable, having been both multiple-channel subscription plus advertiser-based as opposed to traditional broadcasting, the only advertiser-based are starting to emerge. You can listen to second and sometimes tertiary stations of one radio station, for example, even here in New York City.

You have satellite radio, two big companies out there, XM and Sirius. XM, you heard, is a co-sponsor or a partial sponsor of our reception tonight. XM and Sirius are the two main competitors. There's been talk of a merger between the two.

Recently, the FCC Chairman, Martin, said, "We'll look very hard at that," meaning they're disinclined to allow those two companies to merge. This is problematic for nascent technology, nascent new-media companies, in that, in my view, shared by many, less regulation, the better. We don't need the heavy hand of content regulation, for example, that we've seen in the realm of indecency, although in the end, for those of you who represent content producers or aggregators, I would urge you to consider as we restructure our clients' businesses and business models to address concerns beyond mere entertainment and information to address, for example, children's needs.

And so there have been some other examples of recent M&A and children's activity. Yahoo! has announced a recent deal with FOX to do a business channel for them on video. Yahoo! and Reuters are gearing up together to do offer a new eyewitness camera phone service. And as Charles may speak to a little bit, Charles on our panel from A&E, they've recently made a deal with CinemaNow in order to have downloadable content.

So everybody's looking to take their content, re-purpose it, re-distribute it over multiple platforms, as well as create new content just for cell phones or mobile devices.

In fact, Comedy Central recently announced that they believe they've created the first original production for cell phones, which obviously affects things like pilots and production deals and that sort of stuff. What we're doing here in the United States is a lot different than what's already going on in Europe where things are much more advanced.

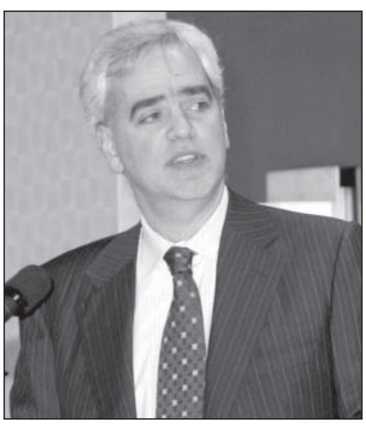
Although Visa and Nokia have recently announced a joint venture here to do wireless swipes for payments, as well as mobile coupons, in Europe, you can already take your phone up to a soda machine and places and go click on your Coke and pay for it right there, let alone all this video and audio content that's rolling.

We also had in January, early January here, the CES, the Consumer Electronics Show in Las Vegas, where several new devices have been announced, most notably, Apple's iPhone. And as some of you may know, Cisco has started a trademark litigation saying, "No, we've had—Apple's had that trademark since 2000."

So obviously as for lawyers, it's all about the rights and protection from infringement, I guess on both the civil and criminal side. Not only copyright comes to mind, but privacy, publicity, defamation and more. And that's pretty much my overview here. I'm going to now turn to our panel and introduce each of our panelists in order as they speak, although there are more detailed bios in the back of our book.

Our first panelist is Jeff Neuburger, a partner at Thelen Reid Brown Raysman & Steiner. As you may know, Brown Raysman is a firm that started as an IP tech firm, and recently in December '06, I believe, merged with Thelen. And Jeff is going to speak to us today about the rights issues I've mentioned, licensing, digital rights management, guild issues, and more. Jeff.

**MR. NEUBURGER:** Thank you. Well, the good news is I'm not going to introduce anybody else, and I'm not going to thank anybody else except for you. Thank you for all being here this afternoon. [VISUAL PRESENTATION]



So I thought it would be useful to, in the context of talking about where we are today, to sort of review how we got here. So going back to the dark ages of portable content, this is one of the early developments, this is the AM/FM eight-track portable stereo. Can you just imagine somebody working out in the gym and carrying those two things? So that's really back in the dark ages.

Then we move to the cell phone technology, and that's mobile cellular phone. You carry it around in your briefcase with all the engineering behind it. Then we start again into the late dark ages when we got the Apple Newton. Anybody here have an Apple Newton? No? Okay. And then we enter the age of enlightenment.

Now that—really the beginning of the age of enlightenment started in fiction, and Dick Tracy with his two-way wrist radio. When I was a kid, I always wanted one of those, but could never find it in the store. And then we moved on to the shoe phone, Don Adams, *Get Smart*, and the shoe phone.

Of course, those phones wouldn't do too well today in the rough sidewalks we have out there. And then we moved on to the communicator in *Star Trek*, until we get to the current generation of devices.

Now this is BlackBerry's latest device, and I don't know, I don't even know what caption to put on it. Is it a cell phone? A PDA? Handheld computer? Handheld device? Wireless device? I'm really not sure. And now this is Nokia's new device. Now Nokia is in the phone business, right? They have a little game console, but they're really a phone company, right? Everybody had Nokia phones. So is this a phone? Well, Nokia says on their website, "We don't sell phones." So that was news to me. Actually, I don't know if you can read it, but Nokia says, "We sell multimedia computers," so that's what that device is called.

That's a multimedia computer. And this, of course, is the new Apple iPhone. Now, what is the Apple iPhone? Is it any of those categories? Well, I'm not sure that anybody knows, including Apple, because if you look at Apple's website, they call it a wide-screen iPod, a revolutionary phone, a breakthrough Internet device. That sort of carries a lot of breadth there, and then a catchall "High Technology." So that's what Apple calls these things.

So, the question is as lawyers when we're trying to draft contracts that talk about rights going in and out of these devices, if the manufacturers of these devices can't figure what to call them, how are we supposed to figure it out? One thing that's clear is that it's a new type of technology and a lot of people are referring to these portable devices as the "fourth screen."

We started with motion pictures as the first screen, and television, computers, and now we're on a fourth screen. And so when you look at the evolution of these devices, it's also interesting to sort of understand the evolution of content to these portable devices. And we heard a little bit about re-purposing of content, and that, in fact, was the way that people started delivering content to portable devices.

So you saw content from television going to the iPod and various other types of re-purposing of television and movie content. And then we moved to content that was a derivative of television content, but really created specifically for portable devices, and FOX has been very active in this area and they've launched a number of what they call "Mobisodes." That's a derivative of *24*, and they've got something off *The Paris Hilton Show*. I can't imagine ever watching Paris Hilton on a cell phone. And then there's something off of *Bones*.

Now an interesting tangent, FOX, if you look at how FOX uses the term "Mobisodes," it actually has a TM next to it. And we heard about the iPhone trademark litigation with Cisco, so FOX has taken the position that "Mobisodes" is a trademark. They're using it as a trademark, since they apparently don't have a registration for it, which is interesting because if you look at some of the other people out there involved in content to portable devices, they use the term "Mobisodes" themselves.

So maybe we'll see a trademark dispute breaking out, but I digress. So then the next step in the evolution of content to portable devices is original content, content that's created specifically for portable devices. So there's *Lil' Bush*, which has been very popular and its content design specifically for portable devices, and 20th Century Fox has developed some content specifically for devices.

And, in fact, Boston University is the first university in the country to launch a class on designing video content specifically for portable devices, so that's a sign of the time. And actually what's happened now is we see some content that was created specifically for portable devices being re-purposed onto television, so the content evolution is moving in both directions.

So when you're talking about content for portable devices, what are the rights issues? Well, first of all, if you are looking at what you've already got and taken content that you already have and you're trying to re-purpose it and use it, do you have the rights? What rights to you have? And, clearly, if you're trying to get new rights with respect to new content or trying to fill in the gaps with respect to content that you already have, what rights do you need? And part of that question is defining the licensed platform. And do you use Nokia's term of a "multimedia computer" in your contracts? I'm not sure too many people on the other side of the table are going to allow that. Or do you use Apple's term, a "Breakthrough Internet Device"?

Again, that's a little ambiguous. Some of the terms that have been used in the past have been the ones you see before you; mobile phones, wireless devices, handheld devices, and computers, but those terms, too, are too ambiguous because where do these things fall? Is a cell phone a computer? What if it has some limited computing functionality?

Obviously, the PDAs are more and more sophisticated, and Nokia calls its device a "multimedia computer." So those kinds of definitions are not very helpful either. And when you ponder these issues, it brings you back to the good old days as a sign of I'm personally feeling my age. I've used this slide before in other presentations. It used to say 10 years ago. I just changed it to 15 years ago. But there was a time when you could use terms like television, computers, online services, and Internet. And even as broad as they are and as ambiguous as they are, everybody around the table sort of understood what you meant by those terms, but those days are gone.

Now the issues that are coming up are, first of all, do we need a license? Is this content really something that we need a license to or is there another way, again, that is a fair use? But—and that's a problem that all content holders are facing on the web. But then, concepts like video on demand, is video on demand television? Well, it looks like television, but maybe it's more like DVD. Is a PDA a computer? Is a website an online service? Everybody understood that AOL, when it was a closed proprietary network, was an online service, but now AOL is a website. Is it an online service? Is wireless distribution through Internet protocol distribution through the Internet? It's a question that 10 or 15 years ago no one really wondered about.

And, of course, why we're here today: How do you define wireless rights? And so what you see along with the evolution of the technology and evolution of the content is an evolution of terminology and contracts.

So this was a definition of television, and I don't have handouts with my slides, but if anybody is interested, if you give me your contact info, I'll be happy to send it to you. But this is a definition of television, and it was a pretty good definition 10 years ago, 15 years ago, but now, of course, television has changed.

And by the way, that definition of television was very specific. It talked about modulation of signals and certain types of bandwidth, and was a very technology-specific definition. So now the reaction is to go completely to the other end of the spectrum, so what you see are definitions like these, distribution technologies, and that means just about anything, a system or facility utilized to receive or distribute audio or video signals. Well, that's every possible sort of distribution method that you can think of, and that is probably too broad.

So the answer lies somewhere in the middle. And what we're seeing is definitions that are similar to the television definition in that they're very technology-specific, but they try to anticipate some evolution of the technology, or they don't, depending on what the business deal is.

So this is just one definition of wireless distribution, and it talks about a combination—it defines the rights by a combination of the way the content is distributed and the devices that it's distributed to, so it's quite a lengthy definition. And when you show it to the business people, they say, "Oh, my God, what does this mean?" But if you parse through it, it actually has some sort of meaning.

Now, this was probably useful like two or three years ago. It's probably a little obsolete at this point. And after that long definition, I don't know if you can see the last sentence, but it carves out a whole bunch of stuff as well.

So you really have to be aware of what's happening in the technology world to be able to define these platforms appropriately. And then, of course, once you define the platforms, you have to make sure you have the rights to use the content as you need to use them on the platforms or if you're the licensor and you want to restrict rights, you have to restrict them appropriately.

So these are some verbs that are used. The most important one is probably technologically manipulate, because that pretty much covers everything and that's what the licensee at least will want to do.

So why is this—why am I talking about this? Isn't this like an issue that is always important? Well, yes, the issue has always been important, but it's particularly important today because we have entered into an era where we are slicing and dicing the rights to content in ways that we've never imagined before.

So, for example, you probably would not want to license out as licensor the rights to wireless distribution in connection with the rights to an iPod, distribute through the iPod, or through the podcasting.

So that's an example of a situation of well, the rights to distribution to a portable device will be too broad because you would be distributing—you'd allow someone to distribute through a podcast, through the iPod, and through wireless devices.

So in this day and age where each one of these opportunities presents a revenue stream, and where you're entering into a world of exclusivity with respect to certain platforms and indemnification relating to that exclusivity, you have to be very, very specific as possible. Of course, the challenge is to be specific yet to accommodate the future and that's one of the reasons why there's a lot of pressure on the issue of the term, how long the term of these licenses should be because who knows what we're going to be doing in five years, never mind 10 years.

The other thing is, as a practical point, people tell me what are some of the tools in navigating this issue? And I cannot stress enough that technical dictionaries and encyclopedias are very, very important, because when you are trying to define these rights, the best way to understand what the rights really mean and what the platforms really are about is by looking them up in these dictionaries. And there's plenty of them; there's a number of good ones online. And I use *Newton*'s in hardcopy form.

So some of the other issues, and I don't want to take up too much time, but in terms of content delivery, the marketplace for portable content is very fickle. You have to keep the content updated and changing quite often, so you want to make sure your contracts deal with that issue.

There's usually some unique technology involved in formatting the content for portable devices, so who's responsible for that, who's responsible for the costs?

Advertising, one of the big business models behind portable content, wireless content, is advertising. There was an article in *The New York Times* this weekend about how the cost of cell phone service is going to be reduced if people are willing to accept ads.

So if you're a content licensor or a content licensee for portable devices, you have to make sure that you've addressed that issue in your license agreements, along with appropriate restrictions for advertising.

I just want to talk about digital rights management. There's been a lot said about digital rights management on the web and in the context of DVDs and other fixed media. Digital rights management is also important in the wireless space, and there's a number of solutions out there. And if you have content that's—if you want to encode your content in digital rights management, you need to have the rights to do that. If you're licensing content in and it's ready encoded, you need to have the rights to strip that out.

You have to be careful, because the Digital Millennium Copyright Act says that you need the permission of a copyright owner to circumvent copy protection technology, so that literally means that if you're licensing content from a third party who doesn't hold the copyright in that content and that content is subject to copyright protection technology, you may actually need to get the license—the rights from the copyright owner or have your licensor get those rights. And this is a provision that I've used in the past for—to deal with no embedding of copy protection technology and the rights to strip it if it is embedded.

One interesting thing that's happening, there's a number of people out there who have reverse engineered FairPlay. That's Apple's digital rights management technology, so it actually allows companies to encode their content in Apple's FairPlay technology without actually having a license from Apple. Now Apple has not sued these guys yet. DVD John, he's the guy that figured out DCSS, the circumvention technology for DVDs. Navio and Apple are an interesting game of cat and mouse. Navio figures out how to circumvent FairPlay, and then


Apple changes FairPlay a little bit, and Navio figures out the change. And it's been going on and on, but I think we'll see litigation there soon.

We heard a little bit about mobile devices in citizen journalism. The issues—there's a number of issues there. one big issue that's in the media a lot now is whether the journalist privilege that is a part of law in a number of states will apply to an individual who is actually out on the street and videotapes something with their cell phone. We heard a little bit about user-generated content. Who has the rights? Just because you have the phone and you've videotaped somebody on your phone, does that mean that you have all the other rights that you need, rights of publicity, rights of privacy?

And then one of the interesting questions is we see a lot of user-generated content being ported over to portable devices, and like YouTube trying to toe the line on certain protections like the DMCA safe harbors, or the Communications Decency Act, to shield them from liability. But what happens when that content gets ported over to a wireless device, a Nokia, a multimedia computer? Will those protections still apply or are those protections no longer applicable?

I feel bad doing this because XM is a sponsor of the cocktail party, but I wanted to point out that XM lost a decision this past Friday on music rights. They were taking the position that their device, which allowed you to listen to music and then actually record it on their device was permissible under the Digital Audio Home Recording Act, and the court, on Friday, decided that that was not, in fact, the case. So XM is still in court on that.

Generally, in terms of music licensing, I think Paul is going to talk a little bit more about it, but the industry is generally changing its tune on music and portable devices. One example is podcasting. For a long time, the record labels had a very reserved position on it. The music publishers did. Now, we start seeing some deals happening and the music publishers have actually taken the position that some of their licenses cover podcasting, so we should see more activity in that area.

Also with respect to guilds, initially, when Apple announced its deal with ABC to have content on the iPod, the guilds issued a statement. It was an unusual statement because it had all the major Hollywood guilds in one statement. And they said they were thrilled by the notion that they can watch their shows in the palm of their hand, but they also want to make sure that we are paid appropriately. So they were thrilled, but they wanted to get paid. They were taking the position that that wasn't covered under their existing agreements. And, in fact, they did settle later and we saw that Disney just struck a deal with the guilds on Mobisodes recently as well.

So you see that, whether people are enthusiastically greeting these changes or being dragged in unwillingly, everyone's eventually coming to the table. They're recognizing that this technology is here to stay and they're trying to figure out how to live with it.

Last points, just an interesting note. The *Google v. Perfect 10* case was an interesting case. It's on appeal right now, but one of the issues in the case was whether Google's thumbnails were fair use. And the court analyzed that decision and found that they weren't, and the reason why they found—one of the factors was that Perfect 10 had a deal with mobile carriers to license out their images for mobile phones.

And, therefore, the fact that Google was serving up these low-resolution images that didn't have a lot of detail didn't sway the court because they said, well, people are looking at these images on cell phones, same resolution, and Perfect 10 is getting paid for it.

So the question is whether the use of content on portable devices, wireless devices, is going to affect fair-use analyses in the future, and in this case, it clearly did, and under the right set of facts, you might see this kind of analysis coming up again in the future.

That's it. Thank you very much.

**MR. SKIDELSKY:** Thanks, Jeff. I think so far, we've given out a lot of information on the issues and rights involved here. There was just one buzzword that didn't come through yet, and I would like to raise that, and that's "jurisdiction." Obviously, in the Internet age, this is a real issue.

As some of you may know—well, our second panel this afternoon, which will be YouTube and MySpace, "Internet Socializing Communities or Breeding Grounds for Litigation?" YouTube in Brazil has just agreed to block videos regarding the superstar model, aren't they all, Daniella Cicarelli, and this, to me, is yet another issue I think you guys should be aware of. *The New York Times* article I also caught last Monday, which was captioned, "Anywhere the Eye Can See, It's Now Likely to See an Ad," the theme being blank space as an endangered species. I don't know when the last time you went to the movies in a movie theater was, but, what do you want for 12 bucks? How many commercials do you have to endure? That's just my cynical view.

For another view on a different corner of our world, we now turn to our second panelist, Paul LiCalsi, an IP litigator/partner at Sonnenschein Nath & Rosenthal. Paul.

**MR. LiCALSI:** Thank you, Barry. I'm coming at this from a litigation point of view. The fault lines of these disruptive technologies often emerge in litigations, and in the music industry where the new technologies probably had an earlier impact and a more profound impact sooner than in other industries, there have been a number of very interesting litigations. I'm going to talk about two of those situations that are fairly recent, one in the context of ringtones. There's recently been a decision by the Register of Copyrights about the application of the compulsory license provisions of Section 115 of the Copyright Act to ringtone downloads.

And there is also now a class action between certain artists and a major record that's a sale of a record or a license. The issue that's arising and being hotly debated in the music industry these days is the digital distribution of music, is that rental or is that a sale, and how is the industry going to evolve? How are the business plans of the industry going to evolve?

As I said, these litigations give us some indication of where the debate is currently. As everyone knows, the technological revolution of digital music file-sharing and downloads had had a profound effect on the revenues of the music industry. Sales of CDs have plummeted, and the industry is moving from a predominantly album-based CD marketing plan to one that's increasingly centered around digital sales of single songs.

Revenues from ringtones in the last few years has been kind of de-AC/Mockina for the music industry. While CD sales have plummeted, revenues from ringtones, particularly master tones, which are the ringtones that are generally snippets of recorded songs that become the ring mechanism on your cell phone, these have been selling enormously, and this has been a great growth area for the music industry.

Jupiter Research indicated that ringtones generated 6.6 billion dollars worldwide in 2006. For several years, record companies and music publishing companies have been at war in terms of the licensing for this business and in negotiating who gets what piece of the pie. For those of you who are not familiar with music copyright licensing, I'll give you just a general outline. A master tone, which as I said, is a snippet of a piece of recorded music from a CD, requires generally the ringtone provider to obtain two licenses. One is a master use license from a record company. In other words, the record company owns the master recording of, say—

**UNIDENTIFIED MALE SPEAKER:** "Stairway to Heaven"?

**MR. LiCALSI:** "Stairway to Heaven," good example. So in order for the ringtone provider to use a 30-second piece of "Stairway to Heaven," the ringtone provider has to get a master-use license from the record company. But there's also another copyright involved, and that's the underlying composition.

So a music publisher, who's the owner of the underlying content, also has to give a license for a ringtone provider to use that master tone. So there's two licenses involved. Prior to this ruling, over the last several years, the way generally the negotiations have come out on an approximately $3 ringtone, music publishers have been able to obtain a 10 percent of retail, more or less, or quite—oftentimes more as the license for music publishing. So the music publisher was getting approximately 30 cents on a $3 sale of a ringtone as their license.

The labels were able to negotiate 20 to 40 percent of retail for the license for the master recording, so they were getting between 60 and $1.20, 60 cents and a $1.20 on a $3 ringtone. The music companies were getting very angry at the music publishers because they felt the music publishers were charging too much for their licenses. And sometimes for very popular recordings, the music publishers refused to give licenses whatsoever, thereby depriving the record labels of revenue that they could have gotten from these licenses.

A little side observation on this, it's ironic since many of the major music publishing companies, like EMI Publishing or SONY/ATV, are affiliated with record companies despite that these two different interest groups have been competing for ringtone dollars. Well, the RIAA, which is the Recording Industry Association of America, initiated a proceeding in the Copyright Office asking the Register of Copyrights to decide whether ringtone licenses from music publishers were subject to Section 115 of the Copyright Act. Section 115 of the Copyright Act provides that music publishing licenses for songs which

have been distributed to the public in the past are subject to what's called a compulsory license with the rate of the license set statutorily by proceedings in the Copyright Office.

The statutory rate for digital recordings right now is 9.1 cents, so that's substantially less than the 30 cents or so that the music publishers have been able to get so far on voluntary licenses. The publishers claim that they were not subject to compulsory licensing. They argued a couple of things. One, is they claim that because master tones and ringtones take a piece of a song rather than the whole song and that there is a certain amount of creative ingenuity involved in deciding what piece is important in a ringtone, that a ringtone use was a derivative work of the original composition, and, therefore—and because derivative works are not subject to the compulsory license, they said ringtones don't fit into that.

They also made an argument that because people use ringtones to identify themselves in public, a lot of people will fashion their ringtones because it has a certain cachet and people hear the ring, that ringtone licenses were not primarily for private use, which is another requirement for compulsory licensing. The Register of Copyrights rejected those arguments. They followed the RIAA and they've decided that ringtones, at least ringtones that simply excerpted portions of an original song and did nothing to change the character or the lyrics and those kinds of changes, those were derivative uses, and it didn't matter that only a portion of the work was used, that those were not derivative uses; therefore, it was subject to the compulsory licensing provisions of the Copyright Act.

They also said that the primary use is still private, that the use of a song as a ringtone, the fact that the public can hear it to some degree when the phone rings is no different than the use of a CD in a boom box or playing your car radio loudly and other people could hear it. It's still primarily a private use, and so it was subject to the compulsory license.

The downside for ringtone providers of a compulsory license—well, obviously, the upside is that they pay about two-thirds less for the license, but to comply with compulsory licenses, there's a very cumbersome process. You have to give a written notice before it's used, and there are monthly accounting requirements that generally are much more restrictive than private voluntary negotiated licenses.

Now, the controversy will now shift, and I believe there's already proceedings under way before the Copyright Royalty Board, which is part of the Copyright Office, where the publishers and the labels are now arguing whether the 9.1-cent compulsory license rate is appropriate for ringtones. As predictable, the labels are saying it should be much lower than that, and the music publishers are arguing it should be much higher than that.

Another indicator as to how technologies disrupt industries may be on the horizon even in the ringtone areas. Could you put up the Zing Tones page? There are available on the Internet several services which will sell you software that basically will take any music that you have on your computer, whether it's from a CD or from downloaded songs from iTunes, and take a piece of it—the indicated part on that slide is the yellow and black piece. It allows you to choose a part of the song, and then send that to your cell phone if your cell phone has Internet access.

In other words, you bypass the ringtone provider and you get your ringtone for free. You don't have to pay the $3. Right now, that software is being sold for a little south of $20, so if you use a lot of ringtones and you're heavily into it, that could save you money. It's probably only a matter of time before such software is available much cheaper than that or for free. So we could see, again, because of technology, an enormous disruption even in this new industry, the ringtone industry. So we'll have to stay tuned to see what happens on that.

Another example of how new technological developments can disrupt expectations in the entertainment industry is when you have to apply old contracts to new technologies. And a good example of that is a class action lawsuit that was recently brought by the Allman Brothers and Cheap Trick and I think a couple of other artists against SonyBMG. The record companies, the large labels and most of the recording industry, has been accounting to artists for downloads on iTunes as if those were record sales as opposed to licenses.

As you'll see in a minute, this has an important effect on what royalty is paid to the artist, whether it's a sale or a license. The Allman Brothers and Cheap Trick brought a class action in the Southern District of New York this year, and this class action could have enormous consequences, not only for Sony artists, but I think it's a harbinger for other similar lawsuits that will be coming down the pike against the other major record labels. The class is defined as recording artists who sign with Sony or Sony's predecessor, which was CBS records, on their standard contract provisions providing for the payment of royalties between 1962 and 2001.

The plaintiffs, in their papers, estimate this affects possibly 2,500 different recording artists. The controversy centers around two sections in one of Sony's standard contracts relating to the payment of royalties. Put up 9.01, please. A recording contract has several definitions and royalty provisions for the sale of records. I will get into exactly how the—what's called the default paragraph is applied in a minute, and you'll see how the deductions are made before the application of the royalty rate that the artist gets. But the default provision, as you can see, says the basic royalty rate is applied to sales of phonograph records consisting entirely of master recordings recorded under this agreement and sold by SonyBMG or its licensees through normal retail channels.

There's a second section in paragraph 9.03 which provides in respect of any master recording leased by CBS to others for their distribution of phonograph records in the United States, CBS will pay you 50 percent of CBS's net receipts from its licensee.

There's a tension between these two provisions. The first provision says the default royalty, which is on sales of records, applies to sales by Sony, or CBS as the predecessor, to—let me see here—the language as you recall, go back to 9.01, sold by Sony or its licensees. 9.03 says if it's licensed to others, it's a 50/50 split on Sony or CBS's receipts. The Allman Brothers—well, let's go to the chart. This is a chart taken from the Allman Brothers' complaint, and on this chart, you'll see how the economic effect of which of these you apply can profoundly affect the royalty that the artist is paid.

What is alleged as the current method of accounting by the label, you'll see the example is 1,000 units downloaded. The next line indicates less net sales deductions. Most record contracts for sales of records have the record company's account only on 85 percent typically of record sales. This was generated at a time when there were vinyl records; there were enormous losses of inventory.

It's a vestige of those requirements. So right off the bat, they discount 150 of the 1,000 sales. Then there's deductions, as you see for mechanical royalties. Those are the royalties paid to the music publishers. But the big deductions come a little further down where it says "less container charge, 20 percent." Old record contracts where they were selling vinyl records or eight-track cassettes deducted 25 percent of the revenue for a packaging charge. As you can see, what is alleged here is that the record label is still taking that deduction for downloaded music where obviously there's no package.

Then the next deduction is an even larger one less audio-file deduction. This was a deduction in early record contracts. There were special audio-file vinyl records sold that were highly mastered; they were more expensive products; they were sold to, guys who drove around Alfa Romeos and had high-end stereos and subscribed to *Playboy*. It was a very small part of the market. But what is alleged here is that they're taking a 50 percent deduction off of that, then they're applying the contract royalty.

And here, this is on the Allman Brothers, the Allman Brothers have a 30 percent royalty. So you wind up with—after you take all those deductions, on $160, a 30 percent royalty, the bottom line is a $45 payment to the Allman Brothers. What the Allmans are saying is that the correct method would be that 9.03 section, which I showed you earlier, which says "licenses to others, revenue is split 50/50." There, you see, it's a rather simple calculation. On the $700 or so that's obtained from 1,000 downloads, you apply a royalty rate of 50 percent and the Allmans would wind up with $315, quite a difference.

The Allman Brothers argue that the download should come under 9.03 because 9.03 specifically refers to licenses to others. The definition of licensees in the recording contract is including, but not limited to, Sony or CBS's own affiliates and related companies, but what the Allmans argue is that discovery is going to show that this has always been interpreted—the two sections that have always been applied were 9.01, which is the top example, has been applied when Sony has licensed to its own affiliates, and 9.03 is when Sony has gone outside of its affiliate family and licensed masters to others to sell records.

There's arguments on both sides as to the appropriateness and how this should be determined. Sony is trying to nip this case in the bud and has made a motion to dismiss. They've argued that for them, the key is in 9.03, the language I quoted you in 9.03, appears in a section of the contract where it talks about all kinds of other ancillary uses. And they say—you have to go back to 9.01 where it talks about licenses for recordings that entirely consist of masters.

They try to argue that 9.03 applies only in situations like compilations where you're licensing one track to another company to put on a compilation with other artists. I think with this motion to dismiss, what the court is going to have to determine is whether these two contract clauses create an ambiguity and whether a rather wild card is going to be dealt when discovery opens up and they find out how the companies have actually treated these third-party licenses in the past.

There's two facts that the Allmans really want to get into in this controversy, which they will be deprived of getting into if the motion to dismiss is granted. One, is they want to get into the content of Sony's agreements with Apple and iTunes and other downloaders to see if the company itself treats those as licenses. They also want to get into and claim in their papers that, historically, CBS and Sony have always accounted for licensing outside the company's family as licenses, and, therefore, the 50/50 split should be applied.

So I think with these two litigations, the Copyright Office litigation and this litigation, we could see how—what has happened at least in the music industries, is for the traditional participants in that industry, the recording companies and the music publishers and artists, new technologies have overall reduced the dollars that those companies are getting, at least so far, and that's resulted in intense fighting over a smaller pie, in the first instance, between music publishers and recording companies, and with the Allman case, between recording companies and recording artists. Thank you.


**MR. SKIDELSKY:** Thanks, Paul. The highlight of Paul's remarks to me is that, obviously, the disruptive technologies not only disrupt our practices as lawyers, but the businesses themselves and their economic business models.

To talk a little bit about that and some other matters relevant to the TV space, our next panelist, Charles Wright, currently Vice President of Legal and Business Affairs at A&E, where he first joined in that 10- to 15-year window that Jeff talked about, 1995, which was I believe at the time of the first website being launched by A&E.

And so as I said before, time travels much quicker in the Internet world than we can possibly deal with as lawyers or business people, but Charles will tell us some of the issues they're addressing at A&E.

**MR. WRIGHT:** In the second week of 2007, I returned to Manhattan after a brief vacation, and I observed something new in the New York City subway system. It wasn't something that I had absolutely never seen before, but I'd only seen it sporadically, and now this phenomenon is all around us. What is it? People watching moving images on handheld devices. There are people watching handhelds as they wait for trains; there are people watching handhelds as they sit on trains. There are even people watching handhelds as they cross the platform from the express to the local and vice versa.

For the first time around January 8th and 9th, I found myself peering as covertly as I was able to determine what my fellow straphangers were watching, just as I ordinarily peer as covertly as possible to determine what books they're reading. The day of the roving video-watcher has arrived. The day of the roving video-watcher is in full swing. Remember the spring of 1981 when the Sony Walkman suddenly seemed to be everywhere you looked? That day is arriving, I think it has arrived for the handheld video device.

My role on this panel is to represent the perspective of the content provider and the content producer. In daily life, I work for a media company that owns commercial television networks. We want to catch the eye of the demographic that advertisers covet most. That means being on any platform that engages the attention of people 18 to 49, with special emphasis on the people at the lower end of that range. At the moment, we're trying to get on non-traditional platforms in order to promote what we offer on traditional television networks.

Eventually, I believe, we're going to want those investments in content for non-traditional platforms to become businesses in themselves. As we as an industry move to non-traditional platforms to webcasting, to mobile devices and whatnot, we encounter two major problems.

First, we're likely to lack the rights necessary for our programming inventory outside of traditional telecasting. And, second, traditional inventory may very well not play effectively in so-called new media. Let's start with the question of rights.

Even when we, a television outlet, own programming and control it exclusively, we're seldom able to exploit it in an extremely wide variety of media. In years past, for instance, programming, say on the A&E network and the History Channel, has been chock-a-block with third-party materials. Think of an hour of the *Biography* series, for instance. An episode of *Biography* is likely to have more than 100 stills licensed from archives, museums, and individuals. There may be Hollywood clips or footage from news archives. Of course, there are interviews; there are graphics; and there's music. Each of those elements is precious to someone.

And as non-fictional programming has found a greater and greater place in our culture, the owners of materials useful for creating non-fictional programs have raised their prices higher and higher. In order to stay within reasonable budgets, documentarians try to limit the rights they license. They limit the rights insofar as they can to the narrowest demands of the television outlets for which they're working. That means that a cable network like the History Channel may have no more than non-standard television rights and maybe home-video rights in its oldest inventory. That's changing, but it's a very expensive change in the way that we do business.

Now the question of what will work on new media platforms. It seems evident to me that 18-year-olds on the go aren't likely to use their mobile devices for watching movies with epic sweep and complex plots like *Lawrence of Arabia* or *Breaker Morant*.

That kind of programming calls for serenity, for large blocks of time, and possibly for the creature comforts of home. That kind or programming isn't likely to play well in Starbucks or on the subway.

In thinking about how content may change in this new era of digital technology, it's instructive to look at the history of American movies. In the early days of talking pictures, Hollywood recruited actors from the Broadway stage because they were adept at vocal production. Silent stars whose voices were infelicitous or not appropriately trained dropped right out of sight by the middle of the 1930s. But when sound arrived at the movies, it wasn't just the actors who came from Broadway.

A large percentage of the screenplays were lifted directly from the stage, and the movies tended to be nothing more than film plays. They were static, talky, and melodramatic.

As the 20th century and the movie business developed, however, filmmakers adapted to the medium's visual capacities. Filmmakers delivering short-form programming right now for emerging platforms are already adapting. They're adapting very fast. Even when they produce short form that's related to feature-link motion pictures or a television series, they're creating a zippy miniature style that relies on close-ups, quit-cuts, and swift gags. It's a style more akin to Super Bowl commercials than to traditional cinematography.

What's more, it's almost all original shooting, and you can guess why that is, fewer rights to clear. This new form of filmmaking is developing very quickly. The new media are hungry for content, and television outlets, dot-coms, and advertisers are clamoring for new recruits.

In addition to professional filmmakers and documentarians who are part of this initiative, expect to see a significant grassroots contribution. The market isn't offering rich commissions for this new kind of programming.

As a result, this area of the business presents lots of opportunity for emerging filmmakers, film students, and amateurs. Just as cable television in the 1980s offered opportunities to serious but unknown film artists, like Susan Seidelman and Jim Jarmusch, short-form programming designed to be exploited in all media is likely to be a bonanza for ambitious newcomers.

Of course if you've visited YouTube, this emerging genre of short-form filmmaking isn't without its perils where rights are concerned. Just as the music industry has its dangerous mixed tapes, which last week got DJ Drama into big trouble with the Feds down in Atlanta, filmmaking has its mashups. Technological innovations permit even greenhorn editors to snip material from video and online sources for incorporation in their webisodes or Mobisodes or whatever you want to call them.

As for YouTube, it's demonstrating daily how strong is the public's appetite for found objects and strange video artifacts on the web. The case of the Lonelygirl videos demonstrates how uncertain viewers can be as to whether they're seeing a grassroots contribution or a professional production. Video on the web with its community theater production values and its ability to reach the very narrowest special-interest groups has already shown that there's potential for the success of viewer-generated programming.

There are plenty of filmmakers want-to-be's out there, and they're an incredible resource, but a staggering percentage of them have no clue about little matters, such as rights, clearances, or privacy, rights of publicity or the law of defamation.

The most interesting trend to watch in the future, I think, may be movement of programming ideas from the new platforms back to a traditional medium. If we can have *Grand Theft Auto*, the movie, for instance, if Lonelygirl can spawn a film or a television series, then there's no reason that a viewer-generated project that appears on a website couldn't be tomorrow's super-hit series on broadcaster cable.

Jeffrey mentioned *Lil' Bush*, for instance. According to recent press reports, Comedy Central has ordered six episodes of an adult cartoon series called *Lil' Bush: Resident of the United States*, from writer/producer Donick Cary of *Simpsons* fame. *Lil' Bush* began last September as six five-minute shorts offered by the wireless service, Amp'd Mobile. If you haven't seen it yet, you can find *Lil' Bush* along with his friends, Lil' Cheney and Lil' Condi, and their Abu Ghraib-like shenanigans, on YouTube. According to press reports, Amp'd is licensing the long-form version of *Lil' Bush* to Comedy Central, but it's retaining the rights to air the series on its own Comedy Central branded video channels, as well as retaining rights to ringtones and wallpaper related to the series.

So here's what I foresee. In the months ahead, short-form programming is going to be widely produced by both professional filmmakers and amateurs, blurring the distinction between the two. In the more distant future, short-form programming, which, at present, is primarily a promotional tool, whatever MTV may say about their revenues, short-form programming may well become an ad-supported profit center for distributors at various times.

As for the aesthetic effect of all this, that's anybody's guess and certainly not my bailiwick, but it's certainly going to be interesting to watch.

**MR. SKIDELSKY:** Thank you, Charles. I mentioned before that we would encourage people to be disruptive with questions, and I noticed not one of you has taken it upon yourself to do that. So we did want to leave some time here at the end of our panel to also have a Q and A. So while you gather your thoughts about that, let me just mention a couple of other things that came to mind in hearing Charles and our other panelists speak that we didn't really touch.

I mentioned before an issue that we didn't raise earlier was jurisdiction. Well now, I'm sitting here listening and thinking about mobile devices. There's one mobile device that we really didn't mention, and that's cars. As some of you may know, in New York City, for example, taxis are currently testing backseat video, which they had previously attempted in a failed incarnation.

And Sirius Satellite Radio has announced plans to broadcast live TV to the backs of cars by 2007. And every other day, I see some press release by an airline announcing that it's got new or improved back-of-the-seat video service, direct TV into airplanes, games for kids, et cetera. And there was one other thing that came to mind when Charles was talking about how the short form versus long form are cross-pollinating one another.

Short form, as Charles mentioned, programming to cell phones, original production for cell phones, has got to be geared towards that two-inch screen, so therefore, you have a lot of close-ups, and we're talking about nothing more than like three minutes or so. This begs the question of what kind of advertising might we see in this world where you have a three-minute program, you're not going to have a one-minute or a 30-second spot as we've traditionally had in broadcast to date.

Before I became an attorney about 15 years ago, I spent 15 years in radio broadcasting doing everything. One of the stations I'd started at was WMMR, Metro Media Radio in Philadelphia, sort of the WNEW-FM of our generation here in New York. We helped make Spring-steen happen. That's how old I am. We, at that point, were doing what we call value-added advertising cells, where in addition to the 16- and 30-seconds, we would throw bonus spots on that would be really just "mentions" that would take only a couple of seconds. I happened to be listening to one of my old air checks the other day, and I heard myself say after one piece of music ends and right before another piece began, sandwiched in between, we just said, "Budweiser apologizes for this musical interruption."

So I think we're going to see an impact not only in the content realm because of this technology on the traditional programming side, but on the advertising side as well.

Google, for example, is building an off-Internet presence. They acquired a software company called D Mark about a year ago and are now testing radio or audio ads. And also at the CES, the Consumer Electronic Show that happened earlier this month out in Las Vegas, Ford and Microsoft announced a venture whereby they would be making a Bluetooth-enabled dashboard capable of not only hands-free cellular phone service, but also downloads. And also at the CES, Sling Media announced a sort of reverse product to their Slingbox. Does anybody know what Slingbox is? One hand; two hands.

Slingbox is essentially a device that allows you to take your television programming that you get by cable or satellite and convert it into IP packets and distribute it over the Internet by streaming as contrasted with downloading. Everybody knows the difference between those, I would assume. If you don't, that would be a good question to ask, whereby you could, at a remote location, watch your TV at home.

So for sports fans, for example, if you wanted to watch your home team and you're traveling out of town, you could remote log on, if you will, to your cable box at home. That's the Slingbox. They just announced at CES, Sling Media did, the Sling Catcher, which is the reverse. That takes programming that you've downloaded over the Internet to your PC or laptop and enables you to watch it on your television, because obviously among the devices we're talking about emerging in this era of digital technology are the plasma TVs and large screen devices and home theater giving way to home-media entertainment centers where you could buy basically servers, storage boxes.

You could make your own jukebox up, let alone we see in the music world a trend towards eventual, one would hope, celestial jukebox. The music industry, it seems to me, led by the RIAA, has been shortsighted in that they attempted to shut down a nascent industry rather than cooperatively work in order to help it emerge.

With that in mind, I've got a couple of questions I'd like to throw towards our panelists. And the first one I'll ask since I'm talking about music is to Paul. Do you think what with traditional music sales being down, but digital sales being up and the RIAA's efforts to impede nascent technologies that we might see efforts by artists to avoid the traditional label model and perhaps go direct-to-consumer?

**MR. LiCALSI**: I think you're seeing it already. It's—I mean with the new technologies, like any new technology, it democratizes the process a little bit. You not only have democratization in terms of production; it doesn't cost hundreds of thousands of dollars to produce an album anywhere. You can do very high-quality recordings in a home studio with Pro Tools or something like that. But also, the means of distribution have become democratized.

So you're getting a lot of artists now who are, I guess—Ani Defranco was the poster child for a lot of this, who are producing their own music, distributing some of it for free on the Internet, getting a niche following, and they're finding if they sell 30,000 of their self-produced CD either on the net or at personal appearances, they're making more on the sale of records than if they sold 300,000 records with the labels. And so you're seeing a profound shift right now in how record contracts are being negotiated. And what record companies want in order to take on an artist, they want other income streams. So it affects not only how artists are going to get paid and distribute their product, but I think it also affects the music. This could be a renaissance for the Bruce Springsteens and Britney Spears and big blockbuster artists have always been rare, but I think you're going to see they're going to get rarer and rarer in terms of the piece of the music industry that they take. A thousand flowers will blossom in this environment.

**MR. SKIDELSKY:** I've seen a lot of stuff go by in the Internet radio space, which if anybody is interested, there's a website I recommend called kurthanson.com, a pal of mine out of Chicago, where we talk about the disaggregation of audiences where radio, for example, has traditionally been local. The signal travels for a specified geographic radius, and therefore, there's been a trend in recent years following the '96 Comm Act and consolidation of radio station ownership to have, if you will, a homogenization of programming formats.

Now we're starting to see slices and dices where you can have audiences disburse geographically. You see that, for example, on the satellite radio services as well where not only is there jazz available, but there's big band jazz; there's Dixieland; there is bebop; there's slice and dice it as many ways as you want.

I wanted to ask Charles a question when I was prompted by your discussion of short form versus long form. The short form, as some of you may realize, the reason you use short-form programming itself and close-ups, et cetera, has less to do with the increasingly short attention span of media consumers, but with the technological limits themselves.

So in order to avoid blurring, for example, you don't have quick motions in these made-for-cell-phone productions, and you have close-ups where guys have to stand unreasonably close together in the production in order to make it look presentable on the screen. I guess, Charles, I wanted to ask you, do you think we'll see sort of end users creating their own content, making pictures for distribution to conventional cable channels such as A&E?

**MR. WRIGHT:** You're already seeing it. A number of networks have user-generated sites, or if they don't have them going now, they will have them up soon. They're like YouTube, where they invite contributions from enthusiasts and the kind of emerging filmmakers that I mentioned, the Jim Jarmusches and Susan Seidelmans of our coming generation.

**MR. SKIDELSKY:** And speaking of short attention spans, I'll turn to Jeff. I didn't mean that in any way other than I'm thinking about terms of licenses. For all these kinds of licenses, given that we have this unprecedented pace of accelerated change, what impact does that have on licensing terms, the duration?

**MR. NEUBURGER:** Well, there's clearly a reluctance in this environment to enter into long-term agreements, particularly on behalf of the content licensors, because they're worried that they're giving away rights that they don't even know will exist. So there's a pressure to shorten the length of the term, but on the other hand, the licensees who are investing around particular content want to make sure that they have a return on investment.

So generally what's done is a process where people try to figure out really what's intended to be, whether it's supposed to be a particular type of platform as it evolves in the future, or whether it's limited to the platform as it exists today. And if it's the former where it's an evolutionary concept, one way of dealing with the issue of term is to try to provide for substitutes.

So, for example, if you're looking at a gaming console, and a gaming console today has certain characteristics and who knows what the gaming console for tomorrow is going to be, but you could say that if there is something that emerges that has those same characteristics and effectively replaces what we think of today as a gaming console, then that would be within the scope of the license. That's just one way of trying to deal with it, but there's always a give-and-take on the term and new technology issues. It's a difficult issue.

**MR. SKIDELSKY:** Is there a similar impact on a relatively standard clause we've seen on a lot of licenses about a grant of rights for media now or hereafter known?

**MR. NEUBURGER:** Yes, I mean that kind of clause, if you include it in a license agreement, is a pretty broad clause. And then, often you see that, plus you see a reservation-of-rights clause that says anything not expressly granted is reserved to the licensor and you don't know what you have, so anyway—

**UNIDENTIFIED MALE SPEAKER:** You have a litigation.

**MR. SKIDELSKY:** Which is the subtitle of our second panel that's going to start after we take a break here about "Breeding Ground for Litigation, YouTube and MySpace." Again, I ask you to please save the date for February 27th for Reporter's Privilege. Check the website. We'll have updates hopefully up shortly as to where and exactly when, but it's another great lunch CLE deal for a few bucks. It's some of the most fun you'll have with your clothes on.

**UNIDENTIFIED MALE SPEAKER:** What would be the status of a parody of an existing song if somebody wanted to do that to make it a ringtone?

**MR. LiCALSI**: There's a couple of levels there. The first question would be is the parody a licensed work? In other words, some other parodists like Al Yankovic get actual licenses to do parodies of songs. And if that isn't obtained, then the question is, is the parody a true parody for use requirements? In either case, the parodist has created a derivative work of the underlying work, so logically, if enough of the underlying work is used in the parody, both the parodist and the original copyright owner would have to give licenses to the ringtone provider for the use. It gets complicated. There's lots of hands out.

**UNIDENTIFIED MALE SPEAKER:** If ringtones are subject to compulsory license, what about images? What about wallpaper images, are they subject to compulsory license as well?

**MR. LiCALSI:** At this point in time, no. There are no compulsory licenses available in other media. Compulsory licenses actually date back about 100 years to when people had player pianos. People are proposing things like that, and they're also proposing to extend it to sound recordings as well. But as of right now, it only applies to the underlying compositional copyright.

**UNIDENTIFIED MALE SPEAKER:** Jeff, is there any kind of shorthand language that you can add onto the language concerning "as may hereinafter be invented" to limit it, or do you have to do a whole number?

**MR. NEUBURGER:** Shorthand language? Well, I guess you could always try to limit it by use of the technology or distribution so wireless technology as now known or hereinafter become—I mean you could try to qualify it to some degree, depending on what the particular deal is.

**UNIDENTIFIED MALE SPEAKER:** You would have a boilerplate limitation that you stick on.

**MR. NEUBURGER:** Well, the boilerplate limitation is take it off.

**MR. SKIDELSKY:** For those of you not physically present and listening or viewing this by time or place-shifting methods employed by the New York State Bar Association, that question was essentially about how you might limit the "media now or hereafter known" issue. It seems to me that there's a parallel from an ordinary buying and selling of a business and per a purchase agreement. For example, you have purchased assets and then you can have excluded assets. You can say you're buying substantially all the assets used or useful in the ownership and operation of the business, including only or including without limit, and then you say as a second sort of be, you go excluded or, and then you list those things because typically, you see things like cash, accounts receivables, let alone we heard Jeff before mention how some lawyers, apparently foolishly draft "all media now or hereafter known," but we're excluding a laundry list of stuff. So I throw that out and comment that, precision of expression is a dying craft, especially in the Internet age. Any more questions? Well, if that's it, I'll say thank you all for coming.

[SESSION BREAK]

**MR. PIERRE-LOUIS:** Thanks everyone for coming. I know we stand between you and a great reception, but we have a fantastic panel. I really do mean that. I've been on lots of panels, both as a moderator and on panels, and this is such an august group, so it's a privilege to be able to moderate and hear what they have today, and I hope that you have a lot of questions because these are the people with the answers, if there are answers.


Today, we're here to talk about the legal issues surrounding the use of entertainment content on user-generated sites. I think we know what we're talking about, YouTube and MySpace and all the others are a myriad of them, and I think what we want to do is highlight what the issues are, get in-depth with some others, and see if we can come to some resolution about the future of these new online tools.

Obviously, copyright infringement is a big issue. Even Mark Cuban, no big fan of the recording industry, calls YouTube video Napster for videos, and has publicly questioned Google's strategy in spending 1.6 billion dollars to acquire YouTube. But there are very subtle issues that our panelists will highlight for you today, both on the licensing front and on the litigation front.


Let me quickly introduce our panelists and a short YouTube series of videos to get us into the mood of what we're talking about and to really focus our conversation on today's topic. To my immediate left is Ken Kaufman who is a partner in the Washington, D.C. office of Skadden, Arps.

And I should note that the biographies are also in the books that were circulated as well as the materials that you'll be seeing. To the extent we don't have materials available in the books that you're seeing, we'll point that out and, obviously, if you'd like a copy, you can contact us and we'll get it to you.

Ken's practice focuses on intellectual property, Internet and E-commerce law, entertainment law, content licensing, and the evolving new technologies in the computer and entertainment fields. He represents a wide array of clients who are online, entertainment and communications industries, including television networks, E-commerce companies, new media entrepreneurs, and Internet technology companies. From 1994 to '99, he served as a visiting lecturer at Yale Law School teaching a course on copyright, entertainment, and Internet law. Prior to joining Skadden, Arps, Ken was general counsel of the John F. Kennedy Center for the Performing Arts in Washington, D.C.

His extensive experience in the entertainment and communications industries includes service as Senior Vice President, Corporate Affairs and General Counsel of PolyGram Records, Inc. and Senior Vice President, General Counsel of Showtime/The Movie Channel, Inc. now known as Showtime Networks, Inc. in New York. He has also served as assistant counsel of a U.S. Senate judiciary subcommittee and as a law clerk to Judge Warren J. Ferguson on the U.S. District Court for the Central District of California.

To his immediate left is Marc Reisler. Marc Reisler is a partner and co-head of the Technology Practice Group of the firm's Corporate Department at Katten Muchin Rosenman. He has over 15 years of experience representing software and technology companies, financial services companies, record companies, film and television studios, apparel companies, and "new media," I say quote, because that's your firm bio, "new media" and interactive company and a wide variety of transactions. Immediately prior to joining the firm, Mr. Reisler was a member of the law department for a major telecommunications and Internet service provider, where he had responsibility for that company's Internet online service, online videogame, and virtual private network businesses, as well as its businesses, markets access and e-mail services in Europe, the Middle East, and Africa. Before that, he worked at a Manhattan law firm where he represented a major videogame company.

To Marc's immediate left is Gillian Lusins. She is Vice President in the Law Department of NBC Universal. She has been with NBC Universal for 10 years, and in the last several years, has dealt with a variety of online and new media-related issues, including issues regarding user-generated content. Prior to joining NBC, she was an associate at Gold Farrell and Marks, and Satterlee Stephens Burke & Burke. She graduated from Columbia Law School and Bryn Mawr College. She does not have a MySpace page.

Mark Eisenberg is Executive Vice President for SonyBMG Music Entertainment, and in that capacity, he serves in the Global Digital Business Group. He oversees the company's digital business affairs and activities worldwide. He is responsible for licensing music and other intellectual property for a wide array of evolving digital distribution platforms and outlets.

Mark formulates new digital media initiatives, new ventures, and business alliances, and works closely with trade organizations in helping to form company policy in regards to new technology and electronic music distribution. He also works with marketing in all departments of the company's affiliates and record labels on artist issues as they relate to new media. He also has private law firm experience.

So what you see here are a panel of both outside lawyers and in-house lawyers who are all decision-makers and are here—and at their companies and firms at a time when all these issues are being debated and decided, so we really do have an august panel. As I mentioned before, we do have some YouTube clips that we thought we would show, so let's go ahead and cue that up prior to starting with our first panelist. [VIDEO PLAYING]

**MR. PIERRE-LOUIS:** This is what all the fuss is about? And to help give us some context for this fuss, we're going to start with Ken Kaufman, who will give us an overview of the landscape that we're talking about from a legal front, but really focusing on the copyright issues that derive from the user-generated content side.

**MR. KAUFMAN:** Thanks, Stan. Can we get the laptop back up on the screen? That's great. That's a hard act to follow. I've followed many good speakers, but it's hard to follow a *Mentos* and *Brokeback Mountain* and the whole crew that was up there, but I think as Stan said, it gives you a sense of sort of what all the excitement is about and a lot of the viral nature of the marketing and distribution and publicity here.

What I'm going to try to do is give a brief overview of some of the copyright and industry issues relating to user-generated content sites, and sort of lead into some of the other panelists.

There was a recent article in The *New York Times* to the effect that thanks to the Internet and the rapid global expansion of computing, humans and their machines will create more information in the next three years than in the 300,000 years of history dating back to the earliest cave paintings and beyond. So this shows us that there's a lot more content, an increasing amount of content being created, some of which you just saw on the screen a few minutes ago. And there was another article in *Billboard* a couple of years ago that in my mind sort of epitomized the degree to which the issues we're talking about today have really entered the public consciousness. *Billboard* did a survey of its readership asking what they thought the most important music-related stories of the year were.

And number one in the survey were the copyrighters surmounting the emergence of peer-to-peer file-swapping sites, such as Napster, Kazaa, and Grokster. That had about 50 percent of the vote at this seminar maybe 10 years ago, and if someone said that in a survey of a general readership of a music industry magazine, an intellectual property issue was coming to come out or a legal issue was the most important issue, I think people would have been somewhat incredulous. You may be curious, if that was number one, what some of the other answers were in the survey on the top ten.

Number two was the return to the top of the charts of some older artists like The Beatles, Rod Stewart, and Elvis Presley. Number six was some of the large media mergers, such as Vivendi Universal and AOL/Time Warner. And number eight was the one that I personally would have voted for, which is the artist formerly known as Prince, changing his name back to Prince. Those are real answers to a real survey.

A lot of what we're talking about today has to do with sort of how the law follows along with changes in technology and in media. And in looking at differences between new media and more traditional media, there are a number of differences, new media being primarily digital, their rights and content, and in software, not just in content. They're interactive. The notion of territorial arrangements or distributions or exclusivity becomes very difficult to administer when you're distributing content in digital form on the Internet, and it's very easy to make perfect digital copies of copyrighted content and push a button and send it to 100,000 of your closest friends and increasing the risk of piracy, and also obliterating the distinction between a first- and second-generation copy of something.

In terms of some of the effects of these differences that have been going on over the past several years, the traditional distinction between users and publishers and between bodies of law dealing with users on the one hand and publishers on the other has increasingly been disappearing, and any user can become a publisher.

And a blogger or the operator of some of the websites we're talking about today by definition really is a publisher, and it's led to a re-thinking and re-examination of the traditional role of gatekeepers in the entertainment and media industries.

When you think about it, what is the role of a television network or a software publisher or record company or a book publisher? It is to go out and basically commission the creation of content and then distribute and market that. But in an era where a video producer such as the ones we just saw or a recording artist or a book author can communicate directly with his or her intended audience through some of the websites we're talking about today, what is the need for those traditional gatekeepers? And, obviously, it's causing a lot of re-thinking among all the companies that are represented on the panel here.

There's an increased importance for intellectual property protection. There's been a change in the way of thinking about licensing and administration of rights and traditional notions of public performance rights administered, say in the music industry, by the performing rights societies as opposed to mechanical rights. Reproduction, distribution rights, territorial restrictions, become much more difficult to implement and to administer in the digital era. And it's led to a rapid evolution of business models, a re-thinking of traditional models of how content is created and distributed, and a lot of hybrid blending contributions from what formerly were thought to be different areas of law. There's been also an increasing trend, to some degree, in aggregating content and distribution among major companies in the media, such as Viacom's acquisition of CBS, NBC, and Universal, News Corp. acquiring MySpace, and recently Google acquiring YouTube.

And it's just another example of technology racing ahead of the law. The law tries to sort of keep up, but is always a few steps behind. And, in addition, particularly in the academy and the law school faculty, there's been I think an increasing questioning of traditional principles of copyright law perhaps best illustrated by Larry Lessig of Stanford's challenge to the Sonny Bono Copyright Term Extension Right of 1998, which ultimately resulted in a Supreme Court decision upholding the law, but an increasing number of law professors, in particular, have been thinking about copyright in a different way than they used to.

In looking at issues of copyright involved in user-generated content, of course, there are five exclusive rights of copyright owners: the reproduction right, the adaptation or derivative work right, distribution, and for certain works, public performance and public display. And then pursuant to the 1995 and 1998 amendments to the Copyright Act, the public performance right was also adopted with respect to digital audio transmissions of sound recordings. And I assume there may have been some discussion of that on the last panel.

In looking at really the new/new media, the most current media, user-generated content sites include not only MySpace and YouTube, but a host of others: Facebook, Friendster, Technorati, Google Video, Rever, Metacafe, Pixbo, Yahoo Video, AOL Video, and a whole host of others. And among some of the characteristics of these user-generated content sites, they emphasize social networking and really the formation of virtual online communities among their membership and their user group. And we've also seen the emergence of collaborative processes for creating content and for modifying content that other people have created through Wikis and sites like Wikipedia.

We've also seen increasingly the creation of derivative works or adaptations or mashups on many of these sites, where different users take work that's already out there and change it in various ways. And this has led, among others, to some interesting questions about ownership, who owns rights and content to which many people have contributed or which is based on other works, and where the traditional principles of copyright law, i.e. the degree of derivative work you'd ordinarily need to get the consent of the copyright owner of the underlying work, are increasingly being re-examined and sort of stretched thin and thought about in new ways.

In looking at user-generated content, in addition to the websites we're talking about, a few years ago, the Current TV network created by Al Gore and Joe Hyatt was born and was among the first of new models that really did converge between traditional television and online media. That TV network has a very strong website. It also emphasizes linking their online model with their television network. Users can vote on what content is aired on the network. Viewers are invited to become active collaborators in the network.

Here's a screenshot of the home page as of yesterday, I think. And you can see on the bottom, "Viewers made these. Your green light gets them on TV." And actually. the reporters are primarily a group of young videographers who go out with digital camcorders and shoot short videos.

User-generated content in websites are not necessarily just a youth phenomenon. There's a recent Nielsen survey showing that as much as 60 percent of YouTube's audience may be 35 or older. User-generated content sites dominate the top 10 fastest growing web brands. MySpace had 46,000,000 unique visitors in July. YouTube, also in July, served an average of 100,000,000 video streams per day. MySpace, YouTube, Wikipedia, Craigslist, Facebook, are overall in the top 10 most visited websites in the U.S. Google, as Stan mentioned, acquired YouTube for 1.65 billion dollars in November, and it was reported that they reserved more than 200 million dollars to cover potential copyright liability by withholding a certain portion of the purchase price in an escrow to cover any potential legal exposure.

User-generated videos made up 47 percent of the total online video market at the end of 2006 in this country. And it's projected that within the next four years, they will constitute more than half of all video content viewed online in the United States representing 44 billion video streams. That's per a report that was just issued last week.

However, that's projected to amount to only about 15 percent of all revenues from online video. And among new licensing models that are being explored, in addition to traditional license fees that are paid to copyright owners, revenue-sharing arrangements, equity ownership, joint advertising, marketing, and co-branding, advertising revenues are expected to grow from user-generated videos from about 200 million dollars last year to about 900 million dollars in 2010.

Turning to legal issues associated with copyright, and particularly copyright infringement and user-generated content, there have been at least four lawsuits that have been filed since July of last year, all in the Central District of California.

The first was *Tur v. YouTube, Inc.,* which was brought by a videographer who had shot the footage of Reginald Denny in Los Angeles in 1992 and was upset that his copyrighted video, which he licensed to others, was being posted on YouTube without a license and without compensation.

And then Universal, UMG Recordings, has filed three suits against MySpace, Bolt.com, and Grouper.com, and I believe we have the complaint on the MySpace case in your materials. In terms of the claims that have been made by the plaintiffs in those actions, the general allegations involve claims that sites like MySpace and YouTube have made copyright infringement free and easy, creating a virtual warehouse for pirated copies of videos and songs, not too different in some respects from some of the allegations that were made in the Napster and Grokster lawsuits at the time that they were filed, but with some differences.

Here's an example of what the home page of YouTube looked like a few days ago, and here is a screen shot of the home page of MySpace. The complaints have alleged both direct copyright infringement and secondary copyright infringement.

In terms of direct infringement, the claims include allegations that the user-generated content sites that were sued have reformatted and reproduced copyrighted works which contain various kinds of copyrighted material onto servers which are owned or controlled by the website. In addition, the allegations are that the servers have distributed and publicly performed musical works and videos and sound recordings, and also have responded to search queries with copyrighted text and thumbnail pictures, all of which are alleged to constitute direct copyright infringement.

In addition, for those of you who are not experts in copyright, well, the Copyright Act does not specifically mention second liability for infringement; courts for many years have imposed what are called contributory and vicarious liability on parties who facilitate or profit from direct infringement.

In order to establish contributory liability, a plaintiff must show that with knowledge of the infringing activity, the defendant induced and caused, when materially contributing to the infringing activity of another. And vicarious liability depends on the defendant having the right and ability to supervise the infringing activity and having a direct financial interest in that activity. And the lawsuits that have been filed against MySpace and YouTube allege that those sites were contributorily liable, by encouraging viewers to view illegal copies of audio-visual works to add to their own profiles and share with friends by providing sort of a cloak of anonymity enabling them to upload, download, view, copy, and distribute various kinds of copyrighted materials.

And also vicariously, the allegation is that the sites have the right and ability to supervise or control the infringing conduct, but have yet to do so.

In terms of the defenses that have been asserted up to now in those lawsuits, the primary defense is based on the Digital Millennium Copyright Act that was enacted in October 1998 and which contains a number of sections which limit the liability of what are called service providers. In particular, Section 512c—and by the way, the full text of Section 512 of the DMCA is reprinted in your materials. It's limited safe harbor against liability for service providers, which are defined in Section 512c as entities offering transmission routing and providing of connections for digital online communications between points specified by a user of material which the user has chosen and without modifying the material, and also, a provider of online services or network access or the operator facilities therefor.

So one of the initial questions is, are these websites service providers within the meaning of the DMCA? Mr. Tur, at least in his complaint, has called that into question.

In terms of the limited liability that is provided, a key provision 512c provides that a service provider is not liable for monetary relief and it's also not liable except in limited cases for injunctive relief for copyright infringement by reason of the storage, at the direction of the user, of material that resides on a system of networks controlled or operated by or for the service provider. So note that this is limited to a limited liability for copyright infringement. It doesn't extend to other claims such as defamation, violation of the right of publicity, or other claims. And it relates to this particular sort of material.

And, in addition, in order to qualify for the limitation of liability, the service provider must not have actual knowledge that the material is infringing, and also in the absence of such knowledge is not aware of facts or circumstances from which the infringing activity would be apparent.

And, in addition, the so-called notice and take-down provision, that upon obtaining any such knowledge or awareness of infringement, the service provider expeditiously acts to remove or disable access to material. And the other requirements for the DMCA safe harbor defense are that the provider does not receive a financial benefit directly attributable to the infringing activity, and that upon notification, responds expeditiously.

So these are the requirements for a service provider to be immunized to a certain degree from liability, and that has been asserted as a defense by each of the parties that have so far answered or otherwise responded to the claims brought against them.

In terms of what some of the legislative history or cases have said about a few of these elements, in terms of not having actual knowledge or awareness of the infringing activity, the legislative history, the House Committee report indicated that if the service provider becomes aware of a red flag from which infringing activity was apparent, it would have to take action or lose the limited liability, and that the infringement must not be readily obvious from a cursory review of the provider's website.

And in connection with the element relating to no financial benefit accruing to the service provider, the House report also said that a common sense fact-based approach should be used and that it might include any fees where the value of the service lies in providing access to infringing material.

One interesting question that's arisen out of that is if a service derives advertising revenue that is associated with viewers who are drawn to the service by infringing activity, is that something that falls within the DMCA financial benefit element or not? One of the cases that suggests that, *CoStar v. LoopNet* in the Fourth Circuit, held that there was no direct financial benefit where no users made any kind of payment to the service and held a fairly narrow reading of the financial benefit test in that regard.

By contrast, the *Perfect 10 v. Cybernet Ventures* case from the central district of California a few years ago, the Court did find a direct financial interest where Cybernet benefited from having infringing works at a cost far below that provided by the copyright owner and earning more money, the more visitors came to access those infringing works.

In connection with acting expeditiously to remove or disable content once the service provider is notified, the House report said that the provider doesn't need to actively monitor its service or affirmatively seek facts indicating infringing activity. It's important to keep in mind that the DMCA preceded the advent of Napster in 1999, which really was the beginning of the peer-to-peer file-sharing technology, and therefore, even though it was passed only eight years ago, it's sort of somewhat behind the leading edge of the technology.

And in addition to the DMCA, Marc, I think in a few minutes, will be talking about some interesting related legal issues involving the Communications Decency Act, which, among other things, provides that the provider of the interactive service is not treated as the publisher of any information which is furnished by another provider on that service.

MySpace and YouTube both announced that they're developing technology that would allow copyright owners to digitally identify or flag their content so that they would be in a much better position to identify when a user such as some of the ones we saw in the video a few minutes ago might be incorporating copyrighted content in their videos or other material without authorization.

Very briefly, among other defenses that have been asserted in the pending litigation, under the line of cases since the *Sony v. Universal Studios*, the so-called Betamax case, most of the defendants have asserted that their websites, their technology, do have substantial non-infringing uses which, in their view, under the *Sony* Betamax standard should immunize them from copyright infringement liability.

And under the rationale of the *Grokster* case, which held that regardless of lawful uses, one who distributes a device with the object of promoting its use to infringe copyright is liable for third-party infringement.

These sites have said that they, in fact, in their terms of service, require their users to abide by copyright laws and that they do take a number of steps to expeditiously take down content when they are notified.

Some of the complaints, however, have characterized the services as talking out of two sides of their mouths, since they feel the services are not as diligent in respecting copyrights of third parties as they are in the provisions in their own terms of use. The Grokster site, of course if you go online today, this is what you see. It has been shut down.

Another defense that has been asserted is that of fair use, that much of the copyrighted material that is portrayed or incorporated on these sites under the fair use criteria in Section 107 of the Copyright Act should be deemed a fair use.

Recently, I think there's been a bit of a trend toward recent court decisions in the fair use area emphasizing the transformative use element of the first fair-use factor, the purpose and character of the use that was emphasized by the Supreme Court in the *Campbell v. Acuff-Rose* decision in 1994 when 2 Live Crew wanted to create a parody version of the lyrics of "Oh, Pretty Woman." They were denied permission by the publisher. They went ahead and did it anyway, and the Supreme Court held that it was a fair use in significant part because the use was a transformative use with a further purpose or different character. And evaluations of fair-use defenses are always decided on a case-by-case basis, and this is an area that continues to evolve very rapidly.

And very briefly, other defenses that have been asserted (by the service provider) include a failure to give proper notice in compliance with the DMCA, copyright misuse, *de minimis* use, unclean hands, an implied license, failure to timely register works that are alleged to have been infringed, estoppel, laches, failure to mitigate damages or failure to join parties that are indispensable parties.

These cases are all in various stages of motions or discovery, and obviously, there will be a lot of interesting developments coming out of them.

And just in concluding, very briefly, in the terms of use as I mentioned a few minutes ago, the sites that we're talking about generally disclaim ownership rights in content that is posted. The ownership remains with the user. They provide for the users to grant worldwide non-exclusive transferal royalty-free licenses to make various kinds of uses and modifications of the content that is posted without granting a right to redistribute the content out of the service.

Also, they require the users to represent and warrant that they own the necessary rights to post the content, and that that doesn't violate the intellectual property or other rights of any third party. And they restrict users from making further distributions or transmissions of posted content except for content that they post themselves, and specifically indicate that users are not supposed to promote illegal or unauthorized copying.

Generally, they also provide that the sites do not assume any particular responsibility for monitoring the content that's posted, although they retain the right to do so and provide for an indemnity by the user against any claims by third parties.

As I mentioned earlier, the DMCA and the copyright issues we've been talking about would not extend to other potential causes of action, such as unauthorized use of name and likeness, violations of right of publicity, trademark infringement, defamation, potential issues involving union and guild agreements and requirements under those. And also, it's important to keep in mind that the DMCA and the U.S. Copyright Law do not apply outside this country, and it's not a defense to copyright infringement actions elsewhere.

And among other things, the Japanese Authors Rights Society recently asked YouTube to take down 30,000 different videos that it claimed contained copyrighted information of its authors.

The last thing, in closing, I just wanted to mention is, historically, when there have been new media, often when they were first developed, traditional copyright owners had major concerns about it. When radio was invented, music publishers and record companies were very concerned who was going to buy records or sheet music or player piano rolls anymore when you can hear this for free?

When movies were invented, people said, "Who's going to go to the live stage anymore?" but people continue to do so. When TV came out, there was a concern that it was going to harm movie theaters, and that didn't happen. When VCRs were invented, there was a lawsuit resulting in the Supreme Court decision in *Betamax,* and when peer-to-peer came along, there was another Supreme Court decision.

For the last several years, the movie studios have earned more revenue from home-video distribution than from theatrical motion-picture exhibition. And as I think some of the other speakers will be talking about, there have been a number of very interesting evolutions in business models dealing with user-generated content.

So thank you very much, and we'll turn to Marc Reisler.

**MR. PIERRE-LOUIS:** Next, Marc Reisler will give us a sort of different take on user-generated sites, as well as more focus on the Communications Decency Act.

**MR. REISLER:** Thanks, Stan. Thank you everybody. I'm going to talk a little bit about some aspects of user-generated content that really deal more with what people refer to as blogs or blogging, and maybe a little bit less with the video phenomenon that you see in YouTube.

First of all, in terms of what user-generated content is, I decided for a definition to go to a user-generated content site, namely Wikipedia, and it provides that online–user-generated content is online content that is produced by users of websites, as opposed to traditional media producers, such as broadcasters and production companies. My sense of that is that that is a definition itself that is probably a little bit behind the times.

I think that it's fair to say that traditional media companies are, in a way, certainly becoming more and more involved in the production of user-generated content.

From my perspective, user-generated content is really not a new concept. We think about it as part of new media, but I think that really, we've had user-generated content for quite a while, and I think if there were a user-generated content hall of fame, this guy would probably be the first inductee. This is Dr. Chester Miner. He was a Civil War decorated surgeon. He developed, a little bit later in life, paranoia and schizophrenia. He found his way to London where he committed murder, and from there, he was institutionalized in a hospital for the criminally insane. And in that hospital, he literally produced thousands and thousands and thousands of entries in what is probably the greatest user-generated content work of the English language, namely, the *Oxford English Dictionary*.

The *Oxford English Dictionary* was created largely in the same way—in a way Wikipedia is created. It was created by people from all over the place submitting entries for their definitions of words. So when I think of user-generated content, I don't think of it in terms of a new phenomenon.

There are, obviously, new legal constructs that we're dealing with, but, in effect, these are issues that we've had to deal with for quite a while, issues of how do you maintain a quality experience while at the same time opening up the content to the creation by multiple people who really have no connection with each other?

Here are some demographics relating to blogging that came from the Pew Internet and American Life Project that I thought were interesting. One, 90 percent under the age of 30—this is a little bit different from the statistic that Ken gave you from YouTube, which is mostly video.

These are really statistics from social networking sites which tend to skew a little bit younger. It's difficult, however, to estimate how many users under 13 are using these sites. However, most of the major operators of these sites have been unwilling to restrict their audience to 16 and over, so I think that there's a possibility that a sizable number are certainly under age 16. So you are skewing fairly young, at least for now. Interestingly, 52 percent of bloggers say they blog mostly for themselves and not for a wider audience. So 52 percent see it as somewhat of a private activity; 32 percent said they blog mostly for a wider audience. Almost 50 percent of bloggers believe their audience is made up of mostly people they know, which is interesting, and as a parent, a little bit scary when you think about what kids do in social networking sites. Fifty-seven million Internet users, 39 percent of all users, read blogs.

So the people that create the blogs tend to think of it as somewhat of a private exercise. However, it's obviously a very public activity, interestingly the most popular blog topic is entertainment, which is, I guess, why it's being talked about here. And 40 percent of bloggers have posted a blog because of a song, movie, or television program that they've encountered.

Obviously, the connection between user-generated content and social networking sites and various forms of entertainment is a very strong one. Now, some interesting statistics. Percentage of bloggers who use photos in their blogs, 72 percent; percentage who post audio files, 30 percent; percentage who post video files, 15 percent. This is as of July. My sense is these numbers are probably out of date at this point, especially in terms of the video. Forty-four percent of bloggers remix songs, texts, and images. That's sort of the mashups that Ken was talking to about.

And here's an interesting statistic. The number of new births in India per minute is 29. The number of new blogs created worldwide per minute is 60. So blogs are growing at roughly double the population growth rate in India, so obviously, a tremendous phenomenon.

So a couple of general observations from these statistics. First of all, at least in terms of user-generated content that is focused on social networking sites, there is a skew towards a younger audience, at least for now. Obviously, posting multimedia content is very popular. Bloggers are very interested and motivated by entertainment. Bloggers see blogging as a personal activity, but blogs are very widely viewed. And, of course, blogs are experiencing expediential growth. And so as a result of this, obviously if you're a lawyer that advises someone that runs a social networking site or if you're a participant in the social networking site, there's obviously risk relating to the content that goes on those sites.

And Ken has talked about that risk from a point of view of copyright infringement. I'm going to talk about that risk from the point of view of almost everything else, and that is the other ways that you can potentially get in trouble based on the type of content that you decide to publish, to make public.

And the statute that provides protection to the operators of social networking sites and other user-generated content sites, other than the DMCA for issues other than copyright-related issues, is the Communications Decency Act, and that Act provides that no provider or user, important, provider or user, of an interactive computer service shall be treated as the publisher or speaker of any information provided by another information content provider.

So what is an interactive computer service? Well, it's an information service, system, or access software provider that provides or enables computer access by multiple users to a computer server. Basically, it's just about any type of interactive computer service. And what's an information content provider? Well, it's any person or entity that is responsible in whole or in part for the creation or development of information provided through the Internet or any other interactive computer service provider. When the Communications Decency Act was first passed, and this is actually one limited provision of the entire act, most of the Act was held unconstitutional except for this provision, what Congress envisioned was a statute that would provide a very broad amount of protection for interactive computer services for two reasons. One was to stimulate very active dialogue over the Internet, a very active exchange of ideas, a reluctance to inhibit the free exchange of ideas over the Internet. And the other was, there was a concern on the part of Congress that the Internet was going to be just a tremendously fertile breeding ground for all kinds of pornographic media or content.

Strangely enough, that's I think turned out to be that way, but they wanted to provide interactive computer service providers with the tools to screen, actually screen content and to edit content to the extent that they thought that for their service, the content was inappropriate.

And so the CDA provides that any action voluntarily taken in good faith to restrict access to material it considers obscene, lewd, lascivious, filthy, excessively violent, harassing or otherwise objectionable, whether or not such material is constitutionally protected, no liability for that, or any action taken to enable or make available to information content providers or others the technical means to restrict access to material described above.

So what I'm going to talk about are a few interesting cases that I think have addressed the boundaries of how the CDA applies to user-generated content. There's a long line of cases that have been decided since the CDA that have granted a very broad immunity generally to Internet service providers like AOL for content that is put on AOL or other types of Internet service providers by third parties. But what I'm going to talk about is really more some of the cases that have addressed this issue as it specifically applies to user-generated content.

What are the boundaries of this broad immunity that the CDA conveys? And this is the first case. This is Tucker Max. He's an interesting guy. This is tuckermax.com. This is his site. It says, "My name is Tucker Max and I am an asshole. I get excessively drunk at inappropriate times, disregard social norms, indulge every whim, ignore the consequences of my actions, mock idiots and posers, sleep with more women than is safe or reasonable, and just generally act like a raging dickhead." Obviously a bit of a controversial guy.

This is Anthony DeMeo, the guy on the right, or your left. Anthony is a gentleman in Philadelphia who is apparently an heir to a blueberry farm, but his day job is that he had a publicity agency, and one of the things that he did as a publicity agent is hold fairly elaborate parties, organized fairly elaborate parties, lots of A-list celebrities, like Mr. Trump with whom he's posing.

Anthony DeMeo has a party, a New Year's Eve party in Philadelphia at a restaurant called Le Jardin, which ends up being an absolute fiasco. It's one of these parties where they charge $100 for the evening, free flowing champagne and dinner, and as it turns out, he gets a much larger attendance than he expected. There isn't enough food; there isn't enough to drink, and the guests, probably not that particular guest, but the other guests just go and take art off the walls and other things. I mean they just go nuts, which was not exactly a great night for Mr. DeMeo.

And so back to Tucker Max, the guy who's the "raging dickhead." So Tucker Max has this Internet site where people can contribute in the form of blogs. They can put on their website their own particular take on events, and in this case, a number of people decided that Anthony DeMeo was a suitable target for their blogs and they put on a number of postings that basically were not kind to Mr. DeMeo and suggested that he had committed fraud and all kinds of other distasteful things. Mr. DeMeo brought an action against Tucker Max and tuckermax.com. Tucker Max says, "Well, wait a minute. The CDA grants me broad immunity for the postings of an Internet content provider. I am an interactive computer service. I am nothing more than an interactive computer service, and these are third-party postings."

Well, Mr. DeMeo says, "Well, not so fast. I know that you edit these postings. You say, 'Oh, well, these postings come in. This is too long; this is too short; this is funny; we don't need this bit, it's not as funny,' you are effectively involved in the creation of the content. You're not just a detached conduit through which the content is delivered." He had nothing to say about that. But the court, and this is the Eastern District of Pennsylvania, says that Mr. Max is right. First of all, importantly, the court says that a blogging site is an interactive computer service so that sites like social networking sites can fall within the protections of the CDA as interactive computer services, as opposed to being information content providers.

It also says selecting and editing blog posts is insufficient to confer information content provider status on operators of blogging sites who don't create the offending blog posts.

So the fact that you have a site—the fact that you may edit content that is on the site doesn't make you, therefore, an information content provider. So the question is well, okay, editing doesn't make you an information content provider.

Is there some way that someone like a Tucker Max or someone that has a site that invites people to make their own postings could become an information content provider? And that's sort of the spectrum that we're going to look at and explore here in another few cases.

This is Leeta, the dabo girl, from *Star Trek, Star Trek: Deep Space Nine*. This is the actress that plays the role, and her name is Christianne Carafano. Christianne Carafano used a site called MetroSplash, but she was a celebrity and I gather had other fans that were very interested in her and also were users of MetroSplash. And what MetroSplash is is sort of a dating site. And people could register with MetroSplash, people who were interested in meeting other people for dating purposes. And to register with MetroSplash, MetroSplash provides a number of questions. They provide a questionnaire, and basically you give your answers to the questionnaire, and there's about 50 or 60 questions. You give your answers to their questionnaire, and the answers to the questionnaire are often a selection of multiple-choice answers, and once you've finished the questionnaire, the results of the questionnaire, the postings or the answers to the questionnaire are posted on a profile.

And unfortunately, someone anonymously posted an alleged profile of Christianne Carafano. Basically, you're not allowed to put personal information—according to the MetroSplash rules, you're not allowed to put personal information on your posting. This person not only answered the questions in a fairly lewd fashion suggesting that Ms. Carafano was a woman of easy virtue, but also posted her address, posted her phone number, and so all of that was available for everyone to view, and other very uncomplimentary content regarding Ms. Carafano. Ms. Carafano brought an action for defamation, misappropriation of right of publicity, and various other causes of action. MetroSplash says, "Wait a minute, the CDA. This is posted by someone else. I am an interactive computer service provider. I'm not an information content provider. I can avail myself of this broad immunity."

The district court provides that not so fast. The district court says, "Well, wait a minute. What's this content? The content is really just the answers to the questions that you formulated. And the CDA provides that an information content provider is someone who's responsible in whole or in part for the creation of the content. You, MetroSplash, are responsible in part for the creation of the content. Therefore, we will find that you are an information content provider." Now, they dismiss the case on the merits of the substantive claims, and Ms. Carafano appeals.

The California court says, "We like the result, but we don't like the reasoning." They think that in the Ninth Circuit that this is a bad precedent, that really, MetroSplash wasn't responsible for the offensive content, that this is just a questionnaire that they created. And so they say it's not enough to be involved generally with the creation of content. The fact that you happen to be involved generally or in whole or in part with the creation of content doesn't mean that you're an information content provider for purposes of this particular claim. They said after all, MetroSplash, although they've created the questionnaire, had nothing to do with these particular questionnaire responses, that these particular questionnaire responses were someone else, and therefore, yes, they may be an information content provider for other purposes, but for purposes of this claim, you have to show that they are the information content provider that is responsible in whole or in part for the offensive content.

So yet again, the court applies this broad immunity to the business of MetroSplash and suggesting again that paramount in the eyes of the courts that have interpreted this statute is this concept of broad immunity.

Now there's a few interesting cases that are coming up—that have come up fairly recently that may suggest where this is going because so far, as I said, the cases that have interpreted the statute have really invariably conveyed this broad immunity to interactive computer service providers.

One interesting case coming up is *Whitney Information Network v. Xcentric Ventures*. Whitney is the operator of training services. Xcentric Ventures is a website that sort of fancies itself as the champion of the consumer and tries to portray various instances of consumer rip-offs. And this case is actually coming up in the context of how the Florida long-arm statute is applied.

In this case, Whitney is in Florida and Xcentric is in Arizona, and Whitney is bringing this action in Florida, and the Florida long-arm statute provides briefly that you have to show an actionable claim taking place in Florida. Xcentric says, "Well, I haven't—there's no actionable claim anywhere here." The nature of what Whitney alleges to have happened is that Xcentric basically took other people's postings about Whitney Information Network, people that were unhappy with the services provided by Whitney Information Network, and basically added to those postings, said things like, "This shows what kind of a rip-off Whitney really is." They like the word "rip-off" because their site is something like ripoff.com or something like that. And Xcentric says, "Well, wait a minute, the CDA. There's no actionable claim not only in Florida, but nowhere. There's no actionable claim because I, Xcentric, can avail myself of the broad immunity provided under the CDA." And the Florida court says, "Well, Whitney actually is alleging that you actually contribute to the content, not just editing the content, but by interspersing within the content your own sort of commentary as in, what a rip-off this is." This is a case that we're watching because it's still in the process of working its way out.

Right now, they're, as I understand it, back in Florida determining the facts around to what extent Xcentric has, in fact, actually contributed to the actual content that has been created. But we'll see what happens when this case develops a little further.

One other case that I wasn't going to talk about, but I'll talk about very briefly that's not on here, is *Barrett v. Rosenthal*, which is—which if anybody wants to come up, I can give them the site for that, but fundamentally, the reason I bring it up is that it's a recent case that deals with a person who—not a corporation or a corporate entity, but an individual who takes someone else's blog and posts it further on a bulletin board. And the court in that case fundamentally says that, this is the California Supreme Court, fundamentally says, "We're going to maintain this concept of this strict and broad immunity that is granted under the CDA, but we will consider the fact that it is possible for an interactive computer service provider and an information content provider or a user of interactive computer service and an information content provider to effectively conspire to post information that is in one way or another liable as sort of defamatory or another—in one way or another actionable."

And that was in the concurring opinion in that case, but I think it's an interesting case that tells us where this might be going. In that case, they said that there wasn't sufficient evidence presented by the plaintiffs of this sort of conspiracy to distribute the offensive content, but it does I think present an interesting scenario where one party has knowledge of the offensive nature of the content and is an interactive computer service provider, but with knowledge and with the intention to do harm, tries to avail itself, essentially, of the broad immunity under the CDA and distributes that content, even though it's not technically—it's not their content; it's content from another source they distribute over their own site and try to take advantage of the CDA.

The concurring opinion says that we're going to look at that and we're going to scrutinize that to see if there is something in the nature of conspiracy between those two actors, and that might be an area where the CDA, in effect—that immunity may, in effect, not be available to an interactive computer service provider.

And I'll wrap up with something from that case, a quote from that case, because, obviously, so far, the CDA has been applied very broadly to provide protection from lawsuits, protection to interactive computer service providers. And in this case, *Barrett v. Rosenthal*, the Supreme Court of California says, "We acknowledge that recognizing broad immunity for defamatory republications on the Internet has some troubling consequences. Until Congress chooses to revise the set of law in this area, however, plaintiffs who contend they were defamed in an Internet posting may only seek recovery from the original source of the statement." And therein I think lies the policy behind these decisions.

If you're an operator of a computer service—interactive computer service provider, you are given broad immunity to operate that service in the hopes of forwarding a broad exchange of ideas over the Internet. If you are someone that is injured by the content, don't look to the computer service provider, look to the original source of the content.

One other thing, just that the statute itself in the CDA, people don't look at this very much, but the statute does provide that if you are an operator of an interactive computer service, you are required to post somewhere on that site the availability of filtering software to filter out offensive content. And in terms of advising owners of social networking sites, I advise that that go in the terms of use or someplace prominent like that on the site. And also, the one area that the CDA does not affect is really a number of federal statutes relating to obscenity and sexual exploitation of children. Obviously, the CDA is not meant to be a safe harbor for that type of activity. That's it. Thank you.

**MR. PIERRE-LOUIS:** As I mentioned before, Gillian Lusins is a VP with NBC Universal, and she is going to give an insider's perspective of how owners of content and, in particular, television and motion picture studios approach the issues posed by user-generated sites.

**MS. LUSINS:** Hi. I'll sort of do some general observations rather than go—although, I've had quite a lot of experience lately with user-generated content. Just to start out, one of the ironic things about the label user-generated content, which you saw from Wikipedia, and one of the reasons that I brought the audio-visual content.

One of the observations that you have when you go to a site like YouTube is that for the most part, in many instances, user-generated content is sort of a misnomer. The originality and creativity involved is in the use of recording devices primarily, that it—well, it's heartening to see how involved people are with content and how much they want to interact with it, much of the content on sites like YouTube really consist of snippets or bits of entertainment programming, movies, television shows, et cetera, being reproduced by people with comments or other things like that, but that is the content that's owned by the content providers.

And earlier on, there was a question about what sort of role content providers and broadcast networks and companies like that are in these—now, and the answer still remains is we're the people funding it. This is how it exists.

And I do not deny that there is an enormous amount of creativity that's being shown by many, many people out there, but people are fascinated by and want to comment on entertainment content, and that content—it's unusual, actually, to see a piece of user-generated video. The *Mentos* is a great example where somebody's done something entirely original that doesn't involve a "parody," and I use the word in quotes because so many other parodies are out there and not really classic parodies, or a video where someone's taken popular music, which has led to the deals that Sony and UMG and a lot of other companies have struck with YouTube and then the MySpace lawsuit because people sort of view it these days as a right to take a piece of video and add music to it and create what we all know is a derivative work in most instances.

And that presents an enormous challenge from a content owner's perspective because we are not just in one media anymore; we're all in the business of trying to create healthy other sources of alternative revenue and income. And when—at NBC Universal in particular, even more so in many cases than the other television networks, we have been fortunate enough and blessed enough to have developed some of the more popular late-night content and comedy content, which is perfect for sites like YouTube and because you've got that short form, that two to three minutes or four to five minutes is in many instances just the perfect amount of content to post.

And people like doing it; they like putting it up, which is terrific except for the fact that we are trying to develop business models that revolve around the sale of short pieces of content, and we have been successful on iTunes in doing that, where we make shows like *Saturday Night Live* and other pieces of content available.

It also creates a problem; we would actually like people to go to our website, nbc.com, among other sites, and view—or on a site that we've developed called dotcomedy.com, where we are in the business of making that content available so that we can get the advertising revenue associated with it because we created it. And I'll talk about the rights issues in a moment, but on the other hand, there's another part of the business that, again, to start with "Lazy Sunday," the reason it's the first video is that in many instances, it was the first video that people saw, while YouTube is famous for being a place where users could share content. I think it's fair to say that YouTube sort of exploded onto the scene in December of 2005 because it became the place where you could see that really cool *Saturday Night Live* video, "Lazy Sunday." And it was in every newspaper. It just ruined my Christmas, I must tell you, in a lot of ways, a lot of phone conversations because there was a sort of a "Wow! We're on YouTube," and then when people took a closer look, it was like, "Wow! We are on YouTube; we are—."

There were thousands and thousands of videos, *Late Night with Conan O'Brien* videos, *Saturday Night Live* snippets. All of a sudden, people became aware of the fact that—people within the company became aware of the fact that in many instances, you could pretty much still can find any, famous piece of video with the exception of ones that are incredibly strictly held because if you work in a media company, you can send, and we do send now, thousands and thousands of DMCA notices to YouTube and it's like dealing with mushrooms because another user will just post the video.

So it's a constant problem and there are limits to the number of people you can have scouring these sites because although YouTube is the biggest one, there are many, many, many others of them.

Some of them, like Rever, have actually moved to an all licensing model, so they are friends. But many of the others and, in particular, some of the ones that are offshore, are enormously difficult to deal with. But on the other hand, YouTube has done an extraordinary job of aggregating an audience of people that are looking for videos, an extraordinarily desirable demographic for us because we do have these late-night programs and people credit YouTube for raising and popularizing *Saturday Night Live* again, although it's been doing quite fine, thank you very much. But—and we recognized early on that this was a place where, if you wanted people to have awareness of a show, this was a great place to post video.

As copyright owners, you have the right to put video where you want and expect it not to be there when you don't—when you haven't put it there.

And so we were the first television company to actually do a marketing deal with YouTube back earlier on in 2006, and we had an NBC channel and things like that. There are certain different parts of the company that feel very, very differently about the site.

It's an incredible marketing tool. On the other hand, we'd like people to buy that video or go to nbc.com. It remains a challenge. I'm sure Mark will be talking about the fact that they've done deals, but it really poses an issue.

One of the challenges that's then faced internally is that people either want to have us create sites that are like YouTube or post video onto YouTube, and in many cases, I think it would be fair to describe the rights issue that can be posed by some of these videos as fiendish.

A perfect example, as some of you may know, one of the very first mashups I ever saw, which is absolutely brilliant, I don't know if it's still out there, was somebody re-cut *The Shining*, the movie, the Stanley Kubrick version of *The Shining*, into a—and they used the Peter Gabriel song, "Solsbury Hill," and they made it into sort of a feel-good family movie along with this—and it's such a brilliantly savaged parody of a certain type of trailer, but I don't think that you could ever get the rights to create that, between the estate of Stanley Kubrick, and the fact that "Solsbury Hill" is one of the more difficult songs to license. It's just not replicable on a rights basis or it would take a lot of work.

And when it comes to trying to create that sort of user-generated content in-house or to be able to provide legitimate sources of it, you come up against the fact that some of this video couldn't exist. And I think you could also argue that some may not be fair uses. I mean it's an open question, what—because the other thing that's happening with collaborative art and montages, et cetera, is the meaning of transformative is being transformed. I think it would be fair to say.

So these are many of the issues we're facing with YouTube, how do you balance its appeal as a marketing tool, and these are places you distribute your content with the fact that you have all this content out there that is being disseminated without your permission and, since it's a worldwide site in many cases, without rights, or an exclusive licensee has a great deal of content, and we don't have rights beyond the thing, or you've created a piece of content and you've only obtained U.S. rights, which still happens, although not that much anymore because we are trying to get as many rights as possible.

So that's sort of on the enforcement side of it. And I could say, one of the great things about merging with Universal is that there was a fully staffed anti-piracy unit, which is now staffed even more because of things like YouTube. So I got to be out of the business of sending DMCA notices to YouTube, which is handled by our anti-piracy unit out in California.

But certainly, with the Olympics coming up, it's certainly something we will be struggling with because so much of the value of the Olympics is being the person who controls the first time that a piece of video is seen. I mean, the ship has sailed to some degree with results, but that will be a major issue for us as Beijing approaches in 2008.

And then just briefly, obviously, I think, the response of media companies and certainly, we have gone into this area, is that if you can't fight them, join them in the sense of, clearly, users want to interact with content more than they ever have and they view, in some senses, being able to post things or do things as almost a proprietary right. It was interesting, I mean, when Viacom recently pulled all of the *Daily Show* and other clips off of YouTube because they wanted to put them on Ifilm, which is actually owned by Viacom. It was—the reaction was shock and outrage in the sort of the user community that, "How dare you—this is where I go to see my *Daily Show* clips, I cannot be denied that, that it's almost an entitlement at this point," which is sort of the reaction we had when we sent the letters about "Lazy Sunday," and we know what it's like. The music industry is saying that to the television industry now also.

But then just in terms of the creation of user content, we have tried to—I mean we have our own Wiki. We have a sci-fipedia, which is something that we've created that's on the Sci-Fi Channel. We have *It's Your Show*, which is a website we've created where we give people toolkits and they participate in challenges, and the idea eventually is to create a television show.

We've done contests, various things online where people can create promos, sort of trying to structure, giving people content for mashups and things like that. But all of these things continue to be a challenge and they continue to evolve.

**MR. PIERRE-LOUIS:** So we'll move to our final speaker. We'll go from the folks who brought you *Horny Manatee* to the folks who brought you *Tenacious D* and to Mark Eisenberg. And he's going to tell us the recording industry perspective.

It's unique in a lot of ways because you're talking a lot about music videos in some content, but you're also talking about an industry that's been decimated, I think is the word that most people agree on, because of a lot of online content being out there for free and unlicensed, among other reasons. But there are also some opportunities with these new ventures out there, and Mark is going to tell us about the considerations that recording companies face and make determinations on and which way to go.

**MR. EISENBERG:** Good afternoon. When we look at the YouTube phenomenon, it's the Yogi Berra expression "déjà vu all over again," because we've been through this as a music industry, as a content industry, way back when, through the original Napster after 0.0 before the legitimate subscription service that exists today, and then obviously through P2P.

And so self-expression, publication, and stealing, essentially, in the name of entitlement or personal use of self-expression has been at the core of our existence for quite some time now. So we look at YouTube with—when I'm saying YouTube, I'm talking about user-generated or, basically, infringing, what we believe to be unauthorized uses and infringing uses.

We look at that as, okay, we've been here; we've done that; we perhaps approached some things differently in the past and maybe there are some ways to approach some things afresh and actually monetize things and create business propositions out of things in ways that we couldn't before. When we look at content distribution in the new media platforms, we have to look at it through really two discrete lenses.

One is, what is our product as a music company? As you all know, years back, we were a single-product company. We sold either an LP, a cassette, an album configuration and a CD. It was a single piece of product and a single one-dimensional sales channel, a sell-through sales channel. That all obviously changed with the advent of the Internet.

We saw the disaggregation of the album. We saw obviously the ramp up in piracy. But what we also saw was the opportunity to proliferate our product line in a way that we hadn't before.

If you look at how the music companies used to sell their products, it was a—let's say the album or the LP, and we used to give away the ancillaries. We made the music video and we gave it to the television outlets too—and serviced them because we wanted eyeballs; we wanted impressions; we wanted to promote that end-user product, the LP or the album configuration.

Sometimes we gave away a lot of promotional samplers or singles. Why? Because we didn't really have a thriving singles business as much as we had a thriving album business, and so if we can get someone to pay the $15 or $17 at retail for that album, it was worth giving some of that ancillary product away.

With the advent of disaggregation of our product and the need to change into a different product line, all of a sudden, it became incumbent upon us to be a lot more reliant upon diversified revenue streams, diversified product lines, and diversified platforms. That meant taking some of the IP that we had in the marketplace that we had distributed for free in the name of promotion and taking it back and saying, what, we have to actually productize the ancillaries.

In fact, there is a demand for the ancillaries. One of the things you could look at is the old Tops chewing gum examples. Tops was a chewing gum, still is a chewing gum company, but they couldn't sell their gum, so they went into the baseball card business. They gave away the baseball cards to sell the gum, but the value to the consumer was actually the card and not the gum. I mean if you ever tasted the gum, there's a reason for that.

But I think it's a very telling example of what we are going through in the recording industry because the ancillaries, the packagings, the accoutrements have a lot of value to the end user.

So if you look at personalization products like ringtones or ring backs or singles, individual-track downloads, video-streaming, video on demand, when you're programming on video, all those things that didn't really have an impact on our business before in terms of commercial monetization, all are very, very important today. And it's important for us to productize that, to monetize that, and obviously enforce the IP surrounding that. That's one lens that we need to look through at kind of user-gen and the new media platforms.

The other one is the value proposition that has been created or the enterprise guy that's been created by these distributors in the marketplace. You know, way back when you had all of that in Kazaa and they were living in Vanuatu and going offshore and knowing all these secret types of things, yes, they were making money, but they were doing it kind of undercover because they knew what they were doing was wrong.

Now you have sites that are somewhat legitimate both in the U.S. and abroad, and they're making incredible value, both on a revenue-generation basis and on an enterprise basis. Now, YouTube obviously was what we all know sold to Google for the 1.6 billion figure. It's because they attracted an audience and there was a value there. MySpace was purchased by the FOX interactive group for close to 600 million dollars. And within, I think it was three or four months, turned around and did a Google ad sales deal for 900 million dollars.

Again, the market realized there was an incredible value in having the aggregation of content. So that just leads to the next question as what is the content worth and how do you monetize it? So if you don't actually enforce your rights, you don't negotiate deals.

If you turn a blind eye towards these new media platforms, you're going to miss an opportunity to make money, number one, and that's very important in this day and age when we're all constrained by the traditional models. And you're also doing a disservice to your artist and to your creative community as well and to your fans who actually want to see transformative and other types of new uses. So we, as a company, are now looking at things afresh, having, like I said, been through, kind of the first generation of user-gen and P2P world before, and are saying, what are the opportunities here to participate and get ahead of the game? And the most important thing for us as a content company is the ability to have an authorized use or permission-based use.

If someone wants to create a mashup or just take our video off of a TiVo and upload it and put it on his or her web page or personal profile, as long as we authorize that and are okay with that on economic terms that are sufficient, and also as long as we can get reportings back from these companies, these distributors, on what uses were made so that we can account back to our royalty participants, the artists and the music publishing community, if that all comes into play, then these are all terrific avenues for us to make money and we want nothing more than to actually, roll these models going forward.

The key is it's permission-based and there have to be economic terms that you have to have between the sides that make sense.

**MR. PIERRE-LOUIS:** I just want to thank all the panelists. I think you're all tremendous. And I just wanted to open it up for one or two questions.

**UNIDENTIFIED MALE SPEAKER:** Question, maybe it's Mr. Kaufman's question, the DMCA thing. What are the potential liabilities for somebody who asserts a fair use? The question I've got specifically is if you go to Google and you complain that there's illegal use of your content, you get back a DMCA notice from them in that there's a vaguely threatening provision that says, "By the way, if you're wrong and it's found to be fair use, you're going to be liable for many thousands of dollars," and that effect of which is any small content producer or photographer will obviously not assert his notice at that point. So is there a real potential for liability for somebody asserting copyright within fair use coming up?

**MR. KAUFMAN:** The question was under the DMCA, and particularly to send a notice, is there a potential liability if it turns out to be fair use or not fair use? Under the American system, basically, it's black or white as to fair use. On the one hand, the fair-use determinations are very fact-specific and are always decided on a case-by-case basis, but if the ultimate determination by a court is that it is a fair use, there is no copyright infringement liability, and if it's not a fair use, there is full copyright infringement liability, although there may be other factors that may mitigate against higher damages perhaps.

There have been some commentators, I think, Judge Alex Kozinski of the Ninth Circuit recently suggested that there be a different system in place where, in essence, to the degree that third parties make use of copyrighted works, that there would be some license for your royalty payable by each party sort of in the chain as opposed to having either conduct which is not infringing and as to which it's immunized completely or conduct which is infringing and as to which you are subject to the full range of damages.

**UNIDENTIFIED MALE SPEAKER:** Beyond that, and, again, this comes from a Google notice, a citation, their DMCA notice, that says, "By the way, we're holding you—potentially, you may be liable for several thousand dollars worth of legal fees because you happen to be wrong and the use is just found to be a fair use."

**MR. KAUFMAN:** The question is the Google notice also talked about your potential liability for legal fees. Copyright law, unlike most other aspects of American law, does provide that a prevailing plaintiff who has registered the copyright in a timely fashion can seek both statutory damages and attorney's fees. And under a Supreme Court decision involving a prevailing defendant also can seek attorney's fees. So that is correct in general terms.

**MR. PIERRE-LOUIS:** It's also worth noting that the DMCA has both a notification provision and a counter-notification provision, so if the person accused of alleged infringements counter-notifies, many online service providers leave it to the parties themselves to figure out, and that way they can maintain their own immunity. There are some date deadlines in the statute, but that's generally how it works.

**MR. PIERRE-LOUIS:** Any other questions? Yes.

**UNIDENTIFIED MALE SPEAKER:** Is transformative use another term for open license to create derivative works without penalty?

**MR. KAUFMAN:** The question is, isn't transformative use an open license to create derivative works without penalty? It primarily applies to the first fair-use factor, and as Gillian mentioned, in the *Campbell* case and in a lot of other cases, it's been applied in the context of a parody, but the court still will look at the four factors. And on the first factor, if the court finds it is very transformative, but if on the fourth factor the court finds that it substantially undercuts the market for value of the underlying copyright of work, you could very well have a finding that it's not fair use even if it is transformative.

Again, it's one of the analyses that courts are asked to make, using the four factors, which are not exhaustive, by the way. And it is true that the courts have been emphasizing the transformativeness more than they used to, but it's not determinative by itself, no.

**MR. PIERRE-LOUIS:** I have to take it that the content owners on this panel will probably disagree with the premise that transformative use opens you up to free derivative.

**MS. LUSINS:** We're on both sides of this issue. We produce *Saturday Night Live* and we have a substantial news component. Fair use remains an incredibly important avenue of expression for traditional content owners as well as people who create user-generated content.

**MR. PIERRE-LOUIS:** So even ultimately, it's a case-by-case study.

**MS. LUSINS:** Absolutely.

**MR. KAUFMAN:** But people do use transformative use very, very loosely. I'm speaking on the content-owner side, but—and if you look at—in music, for example, in the rap industry sampling, one would argue, is transformative use, but there is a licensing scheme that has been created over the years where people are paying for master samples and publishing samples and it's a vital part of our business, even though it is a very, very different use than the original one that was ever contemplated.

**UNIDENTIFIED MALE SPEAKER:** So you're saying that you're licensing the things which have been used?

**MR. REISLER:** A hook, a riff, a five-second thing that cycles back and forth throughout the song, those are maybe very loosely a transformative use, but they are of a very high commercial value and are not—they're not going to be given fair-use scrutiny.

**UNIDENTIFIED MALE SPEAKER:** If you're licensing them, you're taking them out of the fair use transformative field and you're putting them into something that's already being licensed. Transformative use is a way of saying someone can lift something out of its very use. They can use it without being held liable. And the question is then, where does something stop being transformative and start being a derivative work?

**MR. REISLER:** Right. No, I think that being transformative is a conclusion. You have to look at the actual facts, and a lot of these things that we're talking about in one person's eyes may be transformative, and in another person's eyes are very much a commercial application.

**MR. PIERRE-LOUIS:** And just on that point, again, it's one of at least four factors. In the *Campbell* case, there was one aspect that was actually remanded back to the lower court; the Supreme Court did not decide it, which was whether using the riff, de, de, de, de, de—

**MR. KAUFMAN:** What was that again?

**MR. PIERRE-LOUIS:** The Roy Orbison riff, de, de, de, de, de—might constitute copyright infringement and the case subsequently settled, so that I think in connection—that's a good illustration of what Marc was just saying. Yes, go ahead.

**UNIDENTIFIED MALE SPEAKER:** Would the DMCA safe harbor be available to a non-profit organization that invites a volunteer to come in as a guest blogger to write about a specific topic, if something in that posting proved to be offensive and problematic to some company that was referenced in it, for example?

**MR. REISLER:** The essence of the question, does the DMCA convey immunity to a not-for-profit that invites someone in—

**UNIDENTIFIED MALE SPEAKER:** As a guest blogger, to write about a topic if there was something that person posts—

**MR. REISLER:** . . . that's offensive. And so far, the DMCA has provided that even under circumstances of knowledge, the operator of an interactive computer service, even with at least allegation of knowledge, which is—that's the *Barrett v. Rosenthal* case, can avail itself of that immunity. I'm not sure what a guest blogger is versus—I suppose—

**UNIDENTIFIED MALE SPEAKER:** If you had a system where the post had to basically be signed off on by the organization, but the actual content of the post was written by some third-party volunteer—would the volunteer, having been asked to write on the topic, be considered part of the organization, the organization be deemed to the posting, or would it be considered the specific author's content because it was created by the third party?

**MR. REISLER:** Well, I think that so far, the DMCA has—the reason why I focus on the guest element is that so far, the DMCA has looked at third-party blogs posted on another person's site or someone that takes a third-party blog and posts it on a third site. And under all of those circumstances, the court has conveyed the DMCA immunity. What a court would do with a "guest," what a court would do with an employee, is a different situation. If that person were thought of as an employee of the company and creates the content as an employee of the company—

**UNIDENTIFIED MALE SPEAKER:** It would be a volunteer delegated for that specific topic.

**MR. KAUFMAN:** I think we've got a guest blogger here.

**MR. REISLER:** The short answer is I don't know how the guest status of the blogger would impact the equation. I think if that person were thought of as an employee, then that, I think it would be fair to say that that would be viewed as content created by the employer if it's within the scope of the employee's employment. I just don't know how a guest would factor into that equation.

**UNIDENTIFIED FEMALE SPEAKER:** Quick question. For those of you who live in or spend a lot of time in Washington, whether or not you have any sense of what the status of the Section 115 copyright reform act is or will be, or whether or not the Congress is going to even deal with it or what the prognosis is for appeal?

**MR. KAUFMAN:** The question is what is the prognosis for Section 115 reform? There was a lot of progress made in the industry compromises last year, but it sort of broke down over certain issues, and there were new chairmen of the relevant committees and subcommittees, so I think there's some potential, but it's going to be slow going. There are a lot of discussions between the affected industries.

There's also a Copyright Royalty Board proceeding, going on to set the new statutory rate for the next five years, which may have been addressed on the panel earlier today, and some of the same issues in the specific are involved in that proceeding as they're involved in the general. But my own sense is it may be a little dicier this year than it would have been last year to work out that consensus.

**MR. BARSON:** I think we really ought to show our appreciation to this extraordinary panel this afternoon. Five industry leaders, we're really grateful to have.

Thank you so much.

# The Copyright Implications of YouTube

By Jonathan Purow

## Introduction

In the span of a year, YouTube has vaulted itself into the collective consciousness by becoming the dominant video-sharing website on the Internet. Unfortunately, one of the main reasons for YouTube's meteoric rise is the popularity of copyrighted materials illegally posted on the site. Robert Tur, an independent television journalist, filed suit against YouTube in July 2006 for copyright infringement and more notably, Viacom filed suit for copyright infringement under vicarious theories of direct and indirect liability this March, seeking over $1 billion in damages and injunctive relief. YouTube has responded to the suits by asserting that it is shielded from liability under the Safe Harbor provisions of the Digital Millennium Copyright Act ("DMCA").

## The Rise of YouTube

YouTube started modestly in February 2005 as a video-sharing site established by three former employees of PayPal. Since becoming fully functional in August 2005, the popularity of the site has increased exponentially. One of the largest factors in YouTube's growth has been the massive copyright infringement on the site. To illustrate, on December 17, 2005 *Saturday Night Live* aired a modest faux rap video entitled "Lazy Sunday," about two friends' quest to get Magnolia cupcakes and watch *The Chronicles of Narnia*. The video was viewed over five million times on YouTube before NBC requested that it be taken down.[1] Stephen Colbert's speech at the White House Correspondents Dinner attracted over 2.7 million viewers in less than 48 hours on YouTube, but when C-Span realized it actually had a valuable commodity on its hands, it requested that YouTube pull the clips (so it could sell its own versions of the event on DVD for $24.95).[2] With no indication that it had reached its apex, YouTube boasted last July that its users viewed over 100 million videos and uploaded 65,000 new ones every single day.[3]

There was trouble in paradise though, for YouTube did not have a business model that could support its operating costs. The site's only source of income was sparse advertising, which was cautiously added to the site out of fear that the notoriously fickle Internet crowd would be driven to a competitor. Despite the influx of $11 million from the venture capital firm Sequoia Capital, the costs of renting bandwidth and server space to support the site were rumored to be approaching $1 million a month by mid-summer 2006.[4] Enter Google. In October 2006, Google paid the hefty sum of $1.65 billion to acquire YouTube. The move was lambasted as "moronic" and it was prognosticated that the massive copyright infringement on the "Gootube" would render it a failure of an investment.[5]

## DMCA § 512(c)

### The Legislative History of § 512(c)

In the early 1990s, Hollywood was beginning to understand that the Internet had the potential to be a haven of copyright piracy.[6] After Napster justified these fears, the major media companies lobbied for legislation that would hold Internet Service Providers ("ISPs") responsible for all the copyright infringement that occurred online through their companies' services, hoping that the problem could be cut off at the source.[7] What the content providers did not count on was staunch opposition from the equally powerful lobbying group of the Bell companies, and other early ISPs, such as AOL and Compuserve. The ISPs lobbied to limit their potential liability in relation to transmitting, caching, hosting and locating information. The ISPs persuasively argued to members of Congress that limiting the liability of the service providers would hasten the growth of the Internet and the services that it could offer.[8] It was clear that legislation needed to be crafted to protect the creative products of the media companies, while at the same time protecting the ISPs from too much liability.

The lobbies entered into contentious negotiations that lasted for three months, and the resultant compromise was embodied in the Online Copyright Infringement Liability Limitation Act, Title II of the DMCA.[9] The provision relied on by YouTube, § 512(c), was designed to protect GeoCities and America Online ("AOL"), both of which offered features where their users could create personalized webpages on servers operated by the service providers.[10]

### An Overview of How § 512(c) Functions

Section 512(c), at issue in the YouTube case, is entitled "Information Residing on Systems or Networks at Direction of Users." For purposes of § 512(c), a service provider is defined quite broadly as "a provider of online services or network access, or the operator of facilities therefor."[11] A service provider can only be eligible for safe harbor if the ISP does not have actual knowledge of infringing material or activities, or awareness of facts from which infringing activity is apparent (constructive knowledge).[12] An additional prerequisite is that the ISP does not profit directly from the infringing activity when the service provider has "the right and ability to control such activity."[13] The service provider is obligated to post contact information for an agent designated to receive copyright infringement notices on its website in a visible fashion.[14] Section 512(c)(3) details what information must be included in a notification of copyright infringement, such as logistical details that enable the location of infringing materials, and states that any material misrepresentations can be punishable under penalty of perjury.[15] Upon receiving such notice, the service provider is obligated to "expeditiously" remove or disable access to the allegedly infringing materials, while allowing time for a counter-notification to be filed if the party who posted it claims that it was removed as a result of a mistake.[16]

### YouTube's Compliance with the DMCA Safe Harbor Provisions

YouTube has been exceedingly careful to comply with the requirements of § 512(c). At the bottom of every page on the YouTube website is a link entitled "Copyright FAQ." The webpage details how to file a notification and counter-notification, and warns that any material misrepresentation could be subject to liability. To this point, YouTube has taken down hundreds of thousands of copyrighted videos in response to notices received from American media companies, as well other groups such as Japanese rightsholders.[17]

YouTube has also been taking additional good-faith measures to curb copyright infringement that are not required by the DMCA. YouTube has sent cease-and-desist letters to websites that distribute software applications that can capture and copy a video as it is displayed on YouTube.[18] The cease-and-desist letters accuse the purveyors of these technologies of tortiously interfering with the business relationship of YouTube and its customers. YouTube specifically disallows its users from copying or distributing any videos that are streamed on the website. By distributing technology that circumvents YouTube's streaming technology, YouTube argues that these people have "induced" copyright infringement. However, this does nothing to prevent people from posting copyrighted materials in the first place.[19]

### Flaws in YouTube's Safe Harbor Defense

Despite being careful to observe the formalities of the DMCA, there are certain setbacks that could prevent YouTube from successfully claiming safe harbor. Section 512(c)(1)(b) requires that the service provider cannot "receive a financial benefit directly attributable to the infringing activity, in a case in which the service provider has the right and ability to control such activity." In his motion for summary judgment, Tur contends that by having banner advertising on the pages of infringing videos YouTube is financially benefiting from the infringing material. This builds on Tur's argument in his original complaint, that YouTube gains a direct financial benefit from infringement because 1) its explosive growth was attributable to the mass posting of copyrighted materials and 2) its advertising revenue stream is dependent on the size of its audience.

This argument is similar to an analysis that was conducted by the Supreme Court in the *MGM v. Grokster* case. After substantial evidence was presented, the Supreme Court found that the majority of the materials on the Grokster file-sharing service were copyright protected. From the proportion of copyrighted files exchanged in relation to the number of non-copyright protected files, the Court inferred that the demand for copyrighted materials was the driving motivation for the use of the software.[20] Grokster derived its profits from advertising placed on users' computers, and the advertising was worth more if there were more users using the software for longer periods of time. The Supreme Court thus concluded that the business model of Grokster confirmed "that their principal object was use of their software to download copyrighted works."[21] This argument could easily apply to YouTube as it stands. Furthermore, YouTube could increase its risk factor if it changes its advertising model to maximize revenue utilizing Google technology.[22]

Additionally, YouTube might not be able to claim that it did not have actual or constructive knowledge of the rampant infringement occurring on the site. Under § 512(c)(3)(B), improperly executed notices are said to not count as actual knowledge. However, the statute is silent regarding whether properly executed notices amount to constructive knowledge of infringing activity. If YouTube was to maintain (as it would need to in order to fall under the safe harbor provisions) that it did not have actual or constructive knowledge of infringing activity, the assertion would be comical, considering that the site has obtained tens of thousands of properly executed notifications of infringement. This is a significant inconsistency in the DMCA.

If YouTube were not capable of claiming protection under the safe harbor provisions, then it would be subject to vicarious, contributory and/or inducement liability. Under any of these theories the ultimate resolution would be heavily fact-dependent. While it is clear that YouTube has made many public efforts to control copyright infringement on the website, it is impossible to discern what evidence would emerge upon commencement of discovery. What *is* certain is that YouTube has the ability to exercise a high degree of control over the contents of the website because the videos are located on its own server.

## The Inducement Theory of *MGM v. Grokster*

In its complaint, Viacom alleges that YouTube "induces" copyright infringement, borrowing terminology ad verbatim from the Supreme Court decision in *MGM v. Grokster*.[23] The defendants, in that case, Grokster and StreamCast, were distributors of two different types of software that allowed users to exchange files from one computer to another, in what are known as "peer-to-peer networks."

The first case that dealt with the issue of peer-to-peer networks was *A&M Records v. Napster*.[24] After a user downloaded the old Napster software, whenever the user ran the Napster application, the computer would register on the central server operated by the defendant. Napster's server would then catalogue which files were located on each user's computer, so that when a user requested a file, Napster's server would put the user in contact with another computer that had the requested file. The files would then be shared from one user's computer to another's (hence the "peer-to-peer").[25] After a protracted series of decisions and appeals, Napster was found liable for vicarious and contributory infringement primarily due to the control it exerted through its central servers over the interactions among users' computers.

After Napster's fall from grace, certain software was designed, presumably to facilitate peer-to-peer file-sharing while shielding its designers from their predecessor's liability. The software versions of Grokster and StreamCast operated in a similar fashion. As with Napster, the user initially downloaded the free Grokster or StreamCast application. Upon running the application, a user could send a request for a file, which would be processed by a supernode. A supernode was a computer that temporarily functioned as a server cataloguing users' files and matchmaking requests to other users (like the server in Napster).[26] The ingenious part of the software was that it automatically sought out and found computers that could serve as supernodes. This process was automatic, required no direction from Grokster, and utilized the computers of users without their knowledge. Once a computer was incapable of functioning as a supernode, the software would search for the next supernode to function as a server. Essentially, once Grokster initially distributed its software and people began to download it, the software was self-sustaining without any intervention or control by Grokster or StreamCast.[27]

The Supreme Court's ultimate holding in *Grokster* was that "one who distributes a device with the object of promoting its use to infringe copyright, as shown by clear expression or other affirmative steps taken to foster infringement, is liable for the resulting acts of infringement by third parties."[28] The Supreme Court first examined Grokster through the standards for contributory liability and vicarious liability. The Court stated that one becomes guilty of contributory liability by "intentionally inducing or encouraging direct infringement" and guilty of vicarious liability by "profiting from direct infringement while declining to exercise the right to stop or limit it."[29] The vicarious liability standard could not be adequately applied because the defendants had designed software over which they exercised minimal, if any, control.

The Supreme Court stated that it had evaluated theories of indirect liability most recently in the *Sony Corp. v. Universal Studios* decision.[30] That opinion had incorporated in its resolution the patent theory of the staple article of commerce. The *Sony* rule was that a manufacturer could not be faulted for distribution of a device used for infringement if it was also "capable of commercially significant noninfringing uses."[31] In *Grokster* however, the Court found that the *Sony* decision did not displace other theories of indirect liability, but left further reconsideration of the *Sony* rule for a future case. The Court then imported the patent theory of inducement to the field of copyright, and found that mere knowledge of infringing potential or of actual infringing uses would not support a finding of liability under this theory. Inducement can only be found where there is "purposeful, culpable expression and conduct" meant to encourage infringement.[32] Considering the new standard and the overwhelming amount of evidence against the defendants, the Court held that Grokster and StreamCast were liable for the infringing activities of their users.

## The Intersection of the Safe Harbor Provisions and the Inducement Theory

The main question in the upcoming lawsuits that has not been resolved is how the inducement theory and the DMCA Safe Harbor provisions will interact. If Viacom succeeds in proving that YouTube does not qualify under the Safe Harbor provisions, the analysis is less relevant, because YouTube could be held liable for contributory or vicarious infringement. However, if YouTube is found to qualify for safe harbor, it could potentially still be open to liability under the inducement theory.

If YouTube is found eligible for safe harbor, then the question of whether it can be held liable under the inducement theory is dependent upon if inducement is considered to be a free-standing doctrine, or merely a facet of contributory liability. In the *Grokster* decision, the Supreme Court defined contributory liability in the copyright field as "intentionally *inducing* or encouraging direct infringement." Yet it then imported the inducement theory of liability substantially as it was from the field of patent law. In patent law, inducement of infringement is an entirely separate doctrine from contributory liability. This ambiguity in the Court's decision will certainly necessitate further clarification either by interpreting appellate courts or the Supreme Court itself.

Assuming that the inducement theory is separate from the theory of contributory liability, it can be argued that the DMCA Safe Harbor provisions do not apply to claims of inducement.[33] The Safe Harbor provisions were originated to protect ISPs from the infringing actions of their users. At the time of the drafting, the theories of contributory and vicarious liability existed, and the provisions incorporated these theories into the statute. However, when the Supreme Court crafted the inducement theory, the language that was utilized did not overlap with the statutory language relating to contributory and vicarious liability. It can thus be argued that the Supreme

Court intended the inducement theory to fall outside the scope of the DMCA Safe Harbor provisions and be a permissible manner of finding indirect liability in the proper factual circumstances. If this were to be the case, YouTube would be evaluated under the inducement theory, and the arguments advanced by Robert Tur about YouTube's failure to comply with the Safe Harbor provisions would be relevant to the final determination of liability.

## The Market's Natural Resolution and How the Law Must Solve Its Shortcomings

### The Shifting of the Online Video Market

Though there was massive copyright infringement on the site, the major copyright providers did not sue YouTube before the Google acquisition, because YouTube was losing money and had been both a boon and a bane for the entertainment industries. On the one hand, the marketing departments of these companies were thrilled that videos of their shows were being displayed online and viewed by the desirable and notoriously fickle college student demographic. On the other hand, the business and legal departments of the content providers were horrified at the massive copyright infringement and potential sapping of viewers and revenue.[34] The content providers have generally resolved this problem by making deals with YouTube and by creating their own competing models.

When Google acquired YouTube, the major media companies knew that Google's deep pockets could compensate them for the past copyright infringements on the website. Google was aware that copyright infringement would be a huge issue in the acquisition; in advance of the purchase, $500 million dollars was set aside in escrow to compensate the media companies.[35] YouTube approached the companies looking to settle, and each inserted a "most favored nations" clause into its settlement agreement. The end result was that each media company was to receive close to $50 million for past copyright infringements.

Facing the possibility that YouTube would become less attractive to viewers once it was saddled with advertisements and lacking most copyrighted content, Google wanted assurance that the investment would be a wise one. It is likely that an understanding was reached wherein the companies possibly agreed that they would not license their material to YouTube's competitors, and that they would cripple the competition with infringement lawsuits. True to form, within a month of the YouTube acquisition, Universal Music sued YouTube's two largest competitors.[36]

While the Google settlements resolved the issue of past infringement, the solution for the future has entailed several steps. First, most of the major media companies have made deals with YouTube to create their own channels of content for viewers. These videos are generally offered in higher quality than the majority of YouTube videos, to provide an incentive to choose to watch these videos over pirated copies. YouTube splits the advertising revenue generated when a user views each video with the company that owns the rights. With regard to videos posted by third parties that infringe on original content, YouTube has presented the media companies with the choice of removing the videos pursuant to notice-and-takedown procedures, or splitting the advertising revenue generated by the videos. To fulfill its part, YouTube has been working to develop or license technology that will effectively find unauthorized copyrighted materials. It is in the process of implementing audio and video "fingerprinting" technology that would match the audio component of copyrighted content to the videos posted on the site.[37] YouTube also pre-screens videos as they are placed on the site to some unknown extent, as evidenced by the fact that pornographic videos never find their way onto the site. To create further incentive for media companies to make licensing deals, YouTube agrees to pre-screen each company's copyrighted content once a deal is completed. However, this negotiating tactic alienated Viacom and contributed to Viacom's decision to file suit.

Inevitably, certain media companies realized that they were losing money by splitting the shares of the advertising with YouTube. As a result, NBC and ABC started to post episodes of popular shows on their own websites, complete with video commercials (rather than the unobtrusive and cheaper banner advertising offered on YouTube). This March NBC/Universal and News Corporation (the parent company of the Fox Networks and MySpace) agreed to collaborate in the creation of an online video site that would compete with YouTube. While other companies such as CBS are purportedly considering joining this effort, several conflicts of interest exist that could critically handicap the effort.[39]

However, while these machinations have taken place, there has been no resolution for parties such as Robert Tur. Small copyright owners are not protected adequately by the measures that YouTube is undertaking, and modified legislation is necessary to ensure that their works will be protected.

### A Proposal for Redrafting § 512(c)

The first objective of a redrafting of § 512(c) would be to distinguish between "service providers" and sites such as YouTube and MySpace. It is possible that the definition of "service provider" in the DMCA is so broad because AOL, one of the main Internet access providers, pushed to enact § 512(c) when it was experimenting with hosting personalized user webpages. What is clear is that at the time the DMCA was drafted, no one anticipated the growth and popularity of websites such as YouTube and MySpace, and the resulting impact on copyright infringement issues. A new statutory classification should be created for "user-generated content websites" ("UGCs") such as YouTube, MySpace and Flickr. The classification of UGCs connotes that third party users are producing the majority of content on the websites, with the implication that the website hosts this content on its servers, and is therefore capable of exercising a high degree of control.

First, it will be necessary to require the UGCs to post the contact information of a designated agent and information about the procedure of filing a notification and counter-notification. YouTube has already done so, and it makes sense to require this because such readily accessible information will provide unsophisticated parties with an avenue to learn how to comply with a very technical law.

Second, the UGCs must bear the burden of creating or licensing technologies such as "audio fingerprinting" that will scan all content on their sites for copyright infringement based on a database of copyrighted content. The UGCs would be required to scan all existing and new content on the site. The maintenance of these databases could be achieved through different mechanisms. One option would be to require all content providers to supply each video-sharing site with copies of their works for the fingerprinting library. An alternative solution is that the content providers provide copies of their works to a centralized database maintained by the Copyright Office, which could be accessed by all UGCs, saving the content providers the cost of providing the materials to each UGC. The duty to supply copyrighted materials to the fingerprinting library would fall on the copyright owners. If the major media companies would like to prevent posting of infringing materials immediately after a show airs, they could provide copies of the shows or videos to the fingerprinting library prior to the air-date the media companies already provide their content to the Federal Communications Commission for decency purposes, so the content could be passed on to the copyright database. Placing the burden on copyright owners would put the major media companies and the small copyright owners on equal footing in protecting their works.

> *"The accelerated development of technologies such as peer-to-peer networks and user-generated content websites has necessitated a reformulation of copyright law evident in Supreme Court case law and the DMCA."*

There are, however, two possible resultant problems that would have to be addressed by legislation should the fingerprint technology be required by law. First, there is the possibility that the technology would not work effectively, and certain infringing materials would slip through the filters. If this were to happen, the old notice-and-takedown provisions should be triggered, and it would be the duty of the copyright owners to notify the UGCs of infringing materials. The second potential problem is that the fingerprinting technologies would be overzealous and disable access to content that does not infringe upon any copyrights. In this case, the existing counter-notification procedures would be effective in preventing any damage to free speech.

Incorporating these changes should function to satisfy the interests of all concerned parties. The media companies would have insurance that their valuable shows or music videos would not be posted on video-sharing sites immediately after airing. Small copyright owners would have similar insurance that their works would be protected. The UGCs would also be satisfied because they could be given safe harbor if they properly complied by utilizing fingerprinting technology and promptly removing infringing materials.

## Conclusion

The accelerated development of technologies such as peer-to-peer networks and user-generated content websites has necessitated a reformulation of copyright law evident in Supreme Court case law and the DMCA. Since this law has developed rapidly, there are inevitable conflicts between different theories of liability and defenses such as safe harbor. In order to reach a satisfactory conclusion in the Robert Tur litigation, a clarification of the law is necessary. If technology can increase at a pace that outdates law within a few years, the latter must be adjusted frequently to adequately suit every changing circumstance. In relation to video-sharing technology, the market has compensated in a fashion that protects the interests of major copyright holders. However, the government should intervene to protect the interests of small copyright owners such as Robert Tur, by redrafting the Safe Harbor provisions of the DMCA.

## Endnotes

1. Anne Broache, *SNL Cult Hit Yanked from Video-Sharing Site*, C-NET News, http://news.com.com/SNL+cult+hit+yanked+from+video-sharing+site/2100-1026_3-6041031.html (Feb. 17, 2006).
2. Noam Cohen, *A Comedian's Riff on Bush Prompts an E-Spat*, N.Y. Times, May 8, 2006, at C6.
3. *YouTube Serves Up 100 Million Videos a Day*, U.S.A. Today, http://www.usatoday.com/tech/news/2006-07-16-youtube-views_x.htm (July 16, 2006).
4. Dan Frommer, *Your Tube, Whose Dime?*, Forbes, http://www.forbes.com/home/intelligentinfrastructure/2006/04/27/video-youtube-myspace_cx_df_0428video.html (April 28, 2006).
5. Blog Maverick, http://www.blogmaverick.com/2006/10/07/some-thoughts-on-youtube-and-google/. Mark Cuban is the ever-opinionated owner of the Dallas Mavericks basketball franchise, and a successful survivor of the dot-com bubble. He has taken a particular interest in YouTube, and has made several interesting posts regarding it.
6. Tim Wu, *Does YouTube Really Have Legal Problems?*, Slate Magazine, http://slate.com/id/2152264 (Oct. 20, 2006).
7. *Id.*

8. L. Hollaar, Legal Protection of Digital Information (BNA Books, 2002).

9. JLitman, Digital Copyright (Prometheus Books, 2000).

10. Tim Wu, *Does YouTube Really Have Legal Problems?*, Slate Magazine, http://slate.com/id/2152264 (Oct. 20, 2006). These sites were the forerunners of the niche now occupied by MySpace and Facebook.

11. 17 U.S.C. § 512 (k)(1)(B).

12. 17 U.S.C. § 512(c)(1)(A)(i) and (ii).

13. 17 U.S.C. § 512(c)(1)(B).

14. 17 U.S.C. § 512(c)(2).

15. 17 U.S.C. § 512(c)(3)(B). A note of interest is that if the service provider is provided with an improperly executed notice, it does not count as evidence of actual knowledge of infringing activity.

16. 17 U.S.C. § 512(c)(1)(C).

17. *YouTube Cuts 30,000 Illegal Clips,* BBC News, http://news.bbc.co.uk/2/hi/business/6069692.stm (Oct. 20, 2006). Laws akin to the Safe Harbor provisions have been implemented in a number of countries such as Japan. While the DMCA provisions are the most complicated, they provide a level of security, because a service provider can be relatively certain that if the notice-and-takedown provisions are followed, it will be free of liability. Countries which have less explicit safe harbor laws are more worrisome to a site such as YouTube, and so it has been overeager to comply with requests like the one made by Japanese artists. Depending upon the country, safe harbor can encompass solely copyright infringement cases, or in broader statutes other actions, such as defamation. Despite YouTube's best efforts, the repeated posting of an intimate video of Daniela Cicarelli, a supermodel, has led a Brazilian court to order YouTube to prevent all postings of the video, under threat of a fine of $119,000 for every day it remains on the site. *See* http://abcnews.go.com/Technology/wireStory?id=2771300.

18. http://www.techcrunch.com/2006/11/15/huh-youtube-sends-techcrunch-a-cease-desist/.

19. The presumed purpose of this is to prevent the reposting of copyrighted materials on YouTube. Part of the difficulty in curbing copyright infringement on the site is that once one person posts a copyrighted clip, these types of software make it easy for innumerable others to put up reproductions. By targeting these programs and eliminating the copycats, YouTube makes the task of weeding out copyrighted content significantly easier.

20. 125 S. Ct. 2764 (2005).

21. *Id.* at 2774.

22. Fred Von Lohmann, *YouTube's Balancing Act: Making Money, Not Enemies,* The Hollywood Reporter, Esq., www.hollywoodreporteresq.com/thresq/spotlight/article_display.jsp?vnu_content_id=1002802746. Google is the pioneer of targeted advertising (i.e., when using Gmail, advertisements pop up that are targeted at words appearing in the email conversations), and having spent $1.7 billion on YouTube, it will be looking for the most effective means of advertising. Google gains advertising revenue from what are known as "click-through" ads, meaning that if a person clicks on an ad that leads it to another page, the advertiser owes Google a fee. Therefore it makes the most sense for Google to place advertisements for products on pages that relate to the products, so an Internet user would more readily gravitate toward the link and click it. One intuitive way for Google to maximize the advertising revenue reaped from YouTube is by linking the advertisements to the tags that users provide when uploading videos. To illustrate such a scenario, imagine a user uploading a clip from *Star Wars*, and applying the tags "star" "wars" "luke" and "yoda" so that the video will pop up whenever another YouTube user searches for any of these terms. If Google's Adsense technology utilizes these tags so that advertisements for *Star Wars* figurines and *Star Wars* DVDs appear as banner ads, YouTube would clearly profit from the infringement. There is also speculation that Google might link advertisements to the content of the videos themselves, which would result in the same problem.

23. 125 S. Ct. 2764 (2005).

24. 239 F.3d 1004 (9th Cir. 2002).

25. *Id.* at 1012.

26. Chris Sprigman, *Why Grokster and Morpheus Won, Why Napster Lost, and What the Future of Peer-to-Peer File Sharing Looks Like Now,* FindLaw, http://writ.news.findlaw.com/commentary/20030508_sprigman.html (May 8, 2003).

27. However, the two defendants derived profit from advertising that found its way onto users' computers, so some form of control still existed.

28. 125 S. Ct. 2764, 2770 (2005).

29. *Id,* at 2776.

30. 104 S. Ct. 774 (1984).

31. *Id.*

32. 125 S. Ct. 2764, 2780 (2005).

33. This argument was forwarded at a Copyright Society of the U.S.A. event in November about Grokster by Stanley Pierre-Louis, who represented the R.I.A.A. in the *Grokster* case. He further expounded upon it in an email correspondence with the author.

34. The problem lies in that companies that produce television shows or music records generate the majority of their revenue through the timed release of original content. A show such as *Grey's Anatomy* generates money because an executive can tell advertisers that 14 million people will be watching when each original show airs. Additional revenue is created when the show is released on DVD, or episodes are licensed for syndication, on a schedule that has been proven to be the most efficient in earning money. Unfortunately, the newer the show or the higher the demand, the more appealing it is to perpetrators of piracy. Within minutes of a show being aired, clips comprising the entirety of the show are posted on YouTube.

35. Blog Maverick, http://www.blogmaverick.com/2006/10/30/some-intimate-details-on-the-google-youtube-deal/.

36. Peter Cashmore, *Universal Music Sues Grouper and Bolt.com, YouTube Escapes,* Mashable, http://mashable.com/2006/10/17/universal-music-sues-grouper-and-boltcom-youtube-escapes/.

37. *Copyright Guards May Impact on YouTube's Appeal*, Taipei Times, www.taipeitimes.com/News/worldbiz/archives/2006/10/14/2003331759 (Oct. 14, 2006).

38. Richard Siklos, *News Corp. and NBC in Web Deal,* N.Y. Times, March 23, 2006 at C1.

39. For one, CBS is in negotiations with Google relating to a service aimed at selling radio advertising. If the deal were to succeed, CBS would reap hundreds of millions of dollars of guaranteed revenue. Clearly, CBS might not be willing to start a competitor to YouTube if it would be risking the loss of the radio deal with YouTube's parent company.

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# So You Wanna Be a P2P—An Analysis of P2P and OSP Liability Post-*Grokster*

By David M. Mann

In *Metro-Goldwyn-Mayer Studios, Inc., et al. v. Grokster, Ltd., et al.*[1] Justice David Souter eloquently summarized the dilemma: "The more artistic protection is favored, the more technological innovation may be discouraged; the administration of copyright law is an exercise in managing the trade-off."[2] With the advent of new technologies—videocassette recorders in the 1980s and online Peer-to-Peer ("P2P") networks more recently—there is a constant struggle between the creators of copyrighted material and hungry consumers, often unable to quash the temptation of a free meal in the form of art.[3] With the Internet, it is now easier than ever to create almost flawless copies of media, whether it be music, photography, or audiovisual material. As a result of these technologies, the music business has arguably suffered the most.[4] Of course, there are those who claim that the advent of P2P technology has not hurt, but rather has *helped* the business.[5] Regardless, lawsuits, both against the downloaders[6] and the networks,[7] have ensued.

## History

### *Betamax*[8]

The *Betamax* decision was American jurisprudence's first major case concerning technology's clash with copyright holders.[9] In 1975 Sony had introduced the Betamax, a somewhat functional equivalent to the VHS,[10] allowing consumers to make copies of any program on television. In 1984, the Betamax videocassette recorders ("VCRs") were being used in both infringing and non-infringing manners, with "time-shifting"[11] the most popular non-infringing[12] use.[13] Nonetheless, Universal and Disney Corp.[14] sued Sony for contributory copyright infringement.[15] While the Copyright Act[16] never specifically recognized this action, the Supreme Court analyzed the standards it first created by Justice Oliver Wendell Holmes in 1911,[17] and tailored them to fit this far more technologically advanced dispute. The decision looked to the standard set in *Gershwin Publishing v. Columbia Artist Management:*[18] "[o]ne who, with knowledge of the infringing activity, induces, causes or materially contributes to the infringing conduct of another, may be held liable as a 'contributory' infringer."[19] The Court decided that it was enough that Sony had "reason to know" of the infringement.[20] The Court diverged from the district court's opinion on whether Sony "induced, caused or materially contributed" to the infringement by setting the culpability bar at even "implying" the product's infringing capabilities in advertising.[21]

However, Sony found safe harbor in patent law's "staple article of commerce" doctrine.[22] The Court held that "the sale of copying equipment, like the sale of other articles of commerce, does not constitute contributory infringement if the product is widely used for legitimate, unobjectionable purposes. Indeed, *it need merely be capable of substantial non-infringing uses*."[23]

The language seemed simple enough, but what this meant outside the immediate facts was uncertain.[24] Of course, the most immediate question was, and still is, *how much* is "substantial"?[25] The Court only implied that, although both authorized and unauthorized time-shifting was the overwhelmingly dominant use,[26] ten percent non-infringing use (the number accounting for *authorized* time-shifting) might be enough to bring the technology out from the storm.[27] Further, once a present "non-infringing use" is identified, does the analysis then end, or does it continue to "capable"? Capable could mean capable now, capable tomorrow, or capable in theory, but the Court did not specify. It held only that Sony was not liable. This was an enormous, albeit foggy, victory for technology.

### *Napster* and *Aimster*

The college years of those born between 1979 and 1984 were perhaps the most musical of any group throughout time. True to the tune, "the best thing in life [was] free."[28] In October 1999, Sean Fanning invented Napster, a P2P software that allowed users to freely shoot songs electronically to one another, with the only limit being the fatigue of one's fingers.[29] At its peak in 2001, it was estimated that Napster had anywhere between 24.6 million and 80 million users.[30] Naturally, on December 6, 1999, the record industry filed suit based on claims of contributory and vicarious copyright infringement.[31]

After finding direct infringement on the part of users,[32] the court looked to the standard of contributory infringement set out in *Sony*, and followed the vicarious infringement standard up from *Gershwin*: "vicarious liability arises when the defendant has the right and ability to supervise the infringing activity and also has a direct financial interest in such activities."[33] On the issue of contributory liability, while the *Sony* court "declined to impute the requisite level of knowledge" of infringements to Sony because of substantial non-infringing uses, the *Napster* court would not do the same. Although the circuit court recognized the district court's neglect to analyze the "capability" of non-infringing uses, evidence of Napster's "specific knowledge" of infringement, on this record, was simply too high to use the escape hatch afforded Sony.[34] With this statement, the Ninth Circuit had added yet another layer to the muddled *Sony* analysis. Judge Patel then agreed with the district court, that the plaintiffs would be likely to prevail on the issue of whether Napster materially contributed to the infringements.[35] With regard to the test for contributory infringement, the court would not impute constructive knowledge on a plaintiff if there was the capability for substantial non-infringing use. However, if there was evidence of specific knowledge, then the *Sony* defense fails, and the defendant would be liable. Then the court would consider whether, if the defendant was not afforded the *Sony* protection, there was causation, inducement or material involvement.[36]

With regard to vicarious liability, the court found that the plaintiffs would likely prevail on the issues of financial benefit and right and ability to control users.[37] The control issue is, perhaps, where the facts of *Sony* and *Napster* diverge most, in that once Sony sold a machine, it had absolutely no right or ability to control its users. Napster, however, was a *service* with the ability to control its users, as it was able to view each user's shared list and terminate service once an infringement was found.[38]

There were several noticeable inconsistencies between *Sony* and *Napster*. First, why did the Ninth Circuit decide that there was no "staple article of commerce" defense for vicarious liability?[39] It reasoned that vicarious liability was not at issue in *Sony*, the venue of the doctrine's birth. Yet such reasoning may be considered strange, as the two causes of action are often "muddled" and almost never appear without one another.[40] There was also criticism that with the "knowledge exception" to the *Sony* defense, all that a plaintiff needed to do was submit notice to the defendant-to-be before commencing action, and the *Sony* defense was thus "evaporated."[41]

Perhaps recognizing the problems with this heightened emphasis on knowledge, the Seventh Circuit in *In Re Aimster*[42] chose, instead, to focus elsewhere. For purposes of this analysis, the Aimster system ran similarly to Napster, with the addition of an encryption that disallowed the defendant from being able to see (*knowing of*) the infringing files.[43]

First, Judge Posner noted the lack of evidence of non-infringing use, suggesting that the technology must demonstrate "more than a mere potential for non-infringing use" in order to qualify for the *Sony* defense."[44] Posner then rejected the Ninth Circuit's "actual knowledge" reading of *Sony*,[45] and went on to hold that Aimster's defense of ignorance shall not stand, as willful blindness would be seen as knowledge.[46] He rightly emphasized that a product's mere capability of substantial non-infringing use would not release it from liability, as just about any product which use is primarily infringing is *capable* of non-infringing uses.[47]

The decision is best (or most notoriously) known for its two balancing tests. In the first, the court posed that in order to decide the fate of a new technology in this forum, "some estimate of the respective magnitudes of [the infringing and non-infringing] uses is necessary for a finding of contributory infringement," and used the fate of non-infringing recording technologies post-*Sony* as justification.[48] Later in the decision, Judge Posner went on to a balancing of, not the technology's effects, but the burden on the defendant to regulate the infringing use, with regard to the amount of damage being done.[49] Needless to say, the decision was considered a major departure from *Sony*.[50]

The court then botched the vicarious liability standard as well.[51] Its analysis did not go beyond the original analysis of the roots of employer-employee *respondeat superior*, or mention financial gain, and Judge Posner dismissed the issue as "academic," because Aimster's "ostrich-like refusal to discover the [widespread infringement] is merely another piece of evidence that it was a contributory infringer."[52] If the placement of this statement seems odd, as well as its use as justification of punting the vicarious liability issue, that is because it was adding yet another piece to the pile of errant Seventh Circuit suggestions.[53]

### Resolving the Dispute: *MGM v. Grokster* and Inducement

Two new P2Ps, Grokster and Morpheus, sprung up only months after the demise of Napster.[54] As both programs' principal uses were the sharing of copyrighted files, MGM and others[55] (hereinafter referred to as "MGM") sued both Grokster, Ltd. and StreamCast Networks, Inc. (the creators of Morpheus) for contributory and vicarious copyright infringement.[56] Basing its reasoning on *Sony,* that if there was a capability of substantial non-infringing use, combined with a lack of actual knowledge and ability to control, the Ninth Circuit Court of Appeals granted summary judgment for the P2Ps.[57] Shortly thereafter, the Supreme Court granted certiorari.[58] The facts were as follows.

In function, both systems were relatively identical to Napster. In form, however, there was one important difference. Grokster operated on a system that used selected users' computers as the list provider to each searching party. Morpheus was even less centralized, with the search of a file reaching out to each other user on the network, as opposed to a server or "super node," as was the case with Grokster.[59] Thus, neither company was able to monitor the activities of its users any better than would a regular user.[60] However, this defense only led the software providers as far as the Ninth Circuit, which then followed *Napster*'s knowledge requirement for liability.

In Justice Souter's opinion,[61] the Supreme Court outlined highlights from the record. At the time of trial, the programs had been downloaded by over 100 million people, and according to the plaintiffs' study, nearly 90 percent of the files on StreamCast's Fasttrack system were protected by copyright.[62] While neither company was able to directly monitor its users' activities, each learned, in other ways, of the infringing activities of its users. Each answered, with instructions, emails from users mentioning downloading copyrighted works. Furthermore, MGM notified the parties of eight million copyrighted files that could be downloaded on their systems.[63]

The actions of the defendants were even more telling than their inactions. The Court mentioned that the record was "replete with evidence," that from the inception of each software's release, the objective of each was to facilitate the unauthorized trade of copyrighted works. StreamCast gave away software made to be compatible with the now-defunct Napster in order to retrieve users' information, while circulating intra-office documents asserting the hope to attract Napster's former clientele. They explained to potential advertisers that their programs did what Napster did. They advertised, "What will you do to get around [Napster's shutdown]?" The Chief Technology Officer said, "[t]he goal is to get in trouble with the law and get sued. It's the best way to get in the new[s]."[64]

Grokster put out its own version of OpenNap, but called it Swaptor. It inserted codes into Grokster.com so that when Internet users searched "Napster" or "free filesharing," the site would come up.[65] Neither company (save for a few emails sent by Grokster to users after threat by copyright owners) made any effort to stop infringements. StreamCast even went as far as blocking ISPs of those it suspected were on the network to collect evidence against it.[66] This of course suggested its ability to block users if it so desired.

The *Sony* Court never reached the issue of intent, so instead of modifying the *Sony* rule, the Court here clarified that while *Sony* only wrote of imputing intent based on a product's configuration, there was nothing in the case suggesting reason to ignore intent outside the product. The decision noted that the Ninth Circuit was erroneously relying on *Sony*, as it dealt with a "claim based solely on distributing a product with alternative lawful and unlawful uses, [knowing] some users would follow the unlawful course."[67] Thus, the court adopted the inducement rule:

> [T]he inducement rule . . . is a sensible one for copyright. We adopt it here, holding that one who distributes a device with the object of promoting its use to infringe copyright, as shown by clear expression or other affirmative steps taken to foster infringement, is liable for the resulting acts of infringement by third parties.[68]

To prevent confusion, the Court went on to write of what should and should not be considered inducement. Justice Souter clarified that mere knowledge, even if specific, would not be enough alone to create culpability. The same was true for technical support and product updates.[69] In order for there to be *de jure* inducement, there must be "purposeful, culpable expression and conduct," which the Court said "does nothing to compromise legitimate commerce or discourage innovation having a lawful promise."[70]

The concurrences are worth noting as well. The crux of Justice Breyer's concurrence is that the *Sony* rule should not be ignored, but that the Court should also focus on the word "capable" and consider future uses of a product. He emphasized that as more file types adapt "swappable" forms, non-infringing uses would surely follow.[71] Thus, both parties, absent their specific actions, would pass *Sony*'s test.[72] In his loose interpretation of the *Sony* rule, he recognized that both parties could be held liable under an inducement theory, and that the industry could continue to pursue direct infringers.[73] Justice Ginsburg's concurrence, on the other hand, is a strict interpretation of the *Sony* rule, which would have found the parties liable even absent inducement (whereas Justice Breyer seems to say they then would *not* be liable absent inducement).[74]

Justice Ginsburg remarked that this case was "markedly" different from *Sony*. There was no finding of fair use, and there was "little beyond anecdotal evidence" of non-infringing uses, with the majority of evidence coming in unsupported declarations of the defendants.[75] Thus, absent the inducement, as mentioned above, Justice Ginsburg still would not have granted summary judgment in favor of Grokster and StreamCast.

Upon remand, Grokster settled for $50 million and agreed to refrain from unauthorized distribution of software that induces copyright infringement,[76] while the district court granted summary judgment in favor of the plaintiffs against StreamCast.[77]

**The Standard**

In his paper, *On The Logic of Suing One's Customers*[78] (written before the Supreme Court's *Grokster* opinion), Professor Justin Hughes posed that "all contributory liability standards can arguably be disassembled into three moving parts: effect, knowledge [including constructive], and intent."[79] After the opinion handed down in June 2005, this statement still holds water. The Court held that if there is a substantial non-infringing use (effect), it will not give shelter to a party privy to inducement (knowledge and intent). They are, indeed, *moving* parts. We do know that knowledge need not be actual. Yet we still do not know the meaning of a "substantial" enough effect to gain access to the *Sony* shelter, and we do not know to what degree a party must induce, in order to be liable. At least the court *attempts* to outline what acts of inducement would be enough to cause liability.

Justice Souter's opinion for the Court provides the framework. We know that even *actual* knowledge of infringing activity alone will not be considered inducement.[80] We are also told that offering services such as technical support and upgrades would not alone support liability[81] (which do not appear to have ever been challenged). Justice Souter went on to list his three ingredients for liability. The first is the apparent aims of each company—namely to fill the market of former copyright bad boy, Napster.[82] The second was each company's lack of protection mechanisms, or effort put forth to create such mechanisms.[83] Yet in a highly relevant footnote, Justice Souter mentioned that this alone, if the device is capable of substantial non-infringing uses, would not be enough, and holding the opposite would "tread too close to the *Sony* safe harbor."[84] Lastly, came a vague statement which seems to suggest the extreme commercial nature of the endeavor—that advertising revenue is dependent on traffic, which is, in turn, dependent on use, which is mostly infringing.[85] That is the map by which the rest of 'em must tread . . . carefully.

### The Rest of 'Em—LimeWire, YouTube, MySpace

As an exclamation point, Justice Souter asserted: "The unlawful objective is unmistakable."[86] It was nice of him to state, with clarity, the culpability of Grokster and StreamCast, specifically, but as is the trouble with any judicially created sliding scale or balancing test, there is the problem of an uncertain standard and future litigation.[87] With only a few years between *Grokster* and the present there still exists (and were born) myriad P2P sites[88] and a few Online Service Providers ("OSPs") with similar functions.[89] It is arguable that they have adapted to fit the *Grokster* framework,[90] but the potential liabilities of three are worth examining.

### YouTube

In February 2005, three programmers working at PayPal[91] started YouTube, a free online streaming[92] video exchange. The site's purpose, as stated in its "about" section, is "for people to watch and share *original* videos worldwide through a Web experience."[93] However it only takes seconds to pull up content created, not by users, but by outside authors, most of whom have not authorized the use of their content on YouTube. While many believe that YouTube's potential liability comes straight from the *Grokster* doctrine, the situation here is a bit different from that of the P2P systems mentioned above. Instead of traditional P2Ps, these systems are OSPs, defined as companies that "store information for consumers for mass distribution to others."[94] The videos are all stored on a central server, rather than residing only on each user's hard drive.

Status as an OSP implicates the Digital Millennium Copyright Act of 1998 ("DMCA")—an additional safe harbor that may exempt the provider from contributory and vicarious liability (but probably not, as discussed below, inducement).[95] One of the relevant provisions, § 512(c) stipulates that as long as the provider (YouTube, in this case) does not have knowledge or reason to know of the infringement, or "acts expeditiously to remove, or disable access to, the material,"[96] it will be sheltered from liability. Additionally, the OSP must not "receive a financial benefit directly attributable to the infringing activity."[97] We have yet to see just how direct this financial benefit must be, but there is talk of direct advertising geared toward viewers of infringing material possibly playing a role.[98] Regardless, YouTube was the first to flinch.

In October 2006, when Google Inc. acquired YouTube for $1.65 billion, the Universal Music Group ("Universal"), SonyBMG Music Entertainment and Warner Music Group etched a licensing deal with YouTube which collectively resulted in $50 million flowing from the OSP to the labels.[99] The benefit, of course, is reduced litigation. However, the rest of the field is left to guess the power of the § 512 safe harbor, and whether, should it not apply as a shelter, the *Sony* safe harbor would apply to an OSP.[100]

### MySpace[101]

As if to provide a perfect arena to flush out the above issues, once negotiations with this online social network proved unsuccessful, Universal filed suit in the Central District of California in November 2006.[102] The complaint alleged that MySpace provided its users with the tools for infringement, functioned as a "vast virtual warehouse"[103] of myriad pirated works, and generally failed to police the site.[104] In addition to launching a new infringing content take-down tool the day the suit was filed, MySpace owner News Corp. countered in a written statement that it did not "induce, encourage or condone" copyright violation—a sure referral to the *Grokster* decision. Yet MySpace's response is a bit off topic. This is not as much a case of inducement as initially meets the eye.

As mentioned above, § 512, part of the DMCA, allows for a safe harbor to OSPs who timely remove infringing content—as Universal alleges that MySpace *did not* do. Even if it did, the site could still be liable under § 512(c)(1)(B) for benefiting directly from the infringement via its advertising programs that (somewhat stereotypically) directs ads for makeup to users viewing infringing Mariah Carey videos while zipping "Urban Wear" ads to those who search 50 Cent. Of course, the word "directly" is up for grabs, but as Universal alleges,[105] this would probably qualify. What of the protection *Sony* might afford? Would it apply here? After *Grokster*, would it still apply at *all*? While some might disagree,[106] I suggest that it does.

On remand, the Ninth Circuit in the *Grokster* decision (or the *StreamCast* decision, as Grokster settled) made no mention of the staple article of commerce doctrine, leading some to believe that it was dead.[107] William Patry, in his widely read Copyright blog, suggested that the court added a second theory of inducement outside of general contributory liability "deliberately to kill off Sony."[108] Yet I believe that it has only gone in the face of inducement. The *Sony* staple article of commerce doctrine, as applied to copyright, is still good law.

In other words, the only thing that has changed is that inducement (or as Patry would say, malicious "intent")[109] now trumps all. Additionally, 512(c) only protects infringement by reason of "storage" of material—not against an inducement charge, which, in my opinion, is a separate offense. While, as in *Grokster*, the staple article of commerce doctrine is trumped by elevated inducement,[110] if MySpace is held to have lost 512(c) protection as a result of mild untimely take-down or financial benefit with some ability to control (rather than inducement), it may still be protected by *Sony*. Of course, this depends on the predominant uses, and how widely the "technology" is defined (i.e., the site as a whole or the file sharing function). It has also yet to be seen how strictly, absent inducement, Justices Alito or Roberts (both appointed post-*Grokster*[111]) would follow *Sony*. But if MySpace's untimely take-down and ability to control is held to have reached such great heights that it implicates "inducement" defined by *Grokster*, as Universal alleges it does[112]. . . MySpace is cooked.

### LimeWire

After the *Grokster* decision was handed down, P2P file share leader LimeWire contemplated leaving the market, but instead chose to move on,[113] and see if it could duck the bat by limiting sharing to files on which it had specific licenses.[114] This obviously did not happen. Instead, with the complaint filed against it in August 2006, LimeWire might be the last of the Napster, royalty-free music descendents to close.[115] The complaint alleges that the system serves an identical function to that played by the P2P systems of old, and thus, should be shut down as well.[116]

Indeed, LimeWire does take a few steps to protect itself from inducement. First, it blocks searches for a few acts, such as Diddy or Madonna, and disallows the software download for those answering "yes" to an inquiry into whether the user plans to infringe copyrights, but the next step exemplifies the continued passivity. *The user can, once again, click "download software" and change his answer!*[117] This is exactly the type of behavior that doomed Grokster and those before it. In Australia, in a similar suit against P2P provider Sharman Networks Ltd.,[118] the court held that "it has long been obvious that [small warnings and messages] are ineffective to prevent, or even substantially to curtail, copyright infringements by users."[119] While international law is not binding upon the Southern District of New York, logic does not get lost on the trip from overseas. The court here is free to hold the same, and as it has not yet heard a case such as this, it is unlikely that it would hold opposite the Supreme Court against an equally culpable defendant such as LimeWire.

The complaint alleges the right and ability to control, specific awareness of infringement (e.g., a warning to "Keep in mind that many users disobey copyright laws."), public statements encouraging infringement, allowing users to search for "Top 40" songs, and specific encouragement that everyone share.[120] Aside from the damning intra-office emails dotting the Grokster situation (which may even be uncovered here, upon discovery), this case does not stray far from its priors. I see no reasoning that LimeWire, as we know it, will exist beyond 2008.

## Conclusion

In the shadow of the *Grokster* decision, LimeWire chief executive Mark Gorton told the *New York Times*: "Some people are saying that as long as I don't actively induce infringement, I'm O.K., [but] I don't think it will work out that way." He added that the court has "handed a tool to judges that they can declare inducement whenever they want to."[121] He was right. However when will they, as he puts it, "want to"? The question has yet to be answered, but with two cases in the system right now, we may soon see.

It all comes down to apparent culpability—a raw "look and feel" test. Regardless of any court's discussion of constructive or actual knowledge, disregarding inducement as part of contributory liability versus heightened inducement to block *Sony* protection, it all boils down to how the public uses the system and whether the providers, OSP or P2P, *actively* police the sites. In MySpace's case, the courts may simply demand better policing, and perhaps grant slight monetary damages. In LimeWire's case, the court may hit it hard with monetary damages and an injunction, unless it is able to survive with severe and effective policing (which is highly unlikely). These punishments, and their likelihoods, will be, as expected, in direct proportion to the culpability of the defendants—the *only* consistent factor up to this point.

## Endnotes

1. *Grokster*, 545 U.S. 913, 125 S. Ct. 2764 (2005), with prior history at 243 F. Supp. 2d 1073 (C.D. Cal. 2003) (motion to dismiss denied); 259 F. Supp. 2d 1029 (C.D. Cal. 2003) (summary judgment granted in part to defendants); 269 F. Supp. 2d 1213 (C.D. Cal. 2003) (plaintiffs' motion to dismiss counterclaims granted in part); 380 F.3d 1154 (9th Cir. 2004) (affirmed); cert. granted, 125 S. Ct. 686 (2004). Subsequent history on remand: Ltd., 2005 U.S. App. LEXIS 17145 (9th Cir., Aug. 15, 2005).
2. *Grokster, supra* note 1, at 2775.
3. *See generally* Damian Kulash Jr., *Buy, Play, Trade, Repeat*, N.Y. Times, December 6, 2005 (SonyBMG attempts to manufacture copy-protected CDs); Justin Hughes, *On the Logic of Suing One's Customers and the Dilemma of Infringement Based Business Models,* 22 CARDOZO ARTS & ENT. L.J. 725 (2005) (highlighting temptation: "Did I want all 78 songs the Police had recorded? I didn't even ask myself this question. The important thing is that it was there, and if I acted now, I could have it all. What, I thought, is happening to me?" *Id.* at 1 citing "Confessions of a Napster Fanatic," Yahoo! Internet Life (July 2000)) and Bradley D. Spitz, *Cyber-Swashbuckling? The U.S. Copyright Holder's Battle Against Extraterritorial Peer-To-Peer Network Infringement in the U.S. Courts will not end with Grokster*, 16 IND. INT'L & COMP. L. REV. 423 (2006) (on the future of Peer-to-Peer issues, standards and litigation).
4. According to the RIAA, retail shipments of music decreased from $13.5 billion in 1999 to $11.5 billion in 2005. Worldwide, it is estimated that piracy accounts for an annual $4.2 billion loss (which includes traditional counterfeiting) (Matthew Sag, *Piracy: Twelve Year-Olds, Grandmothers, and other Good Targets For The Recording Industry's File Sharing Litigation*, 4 N.W. J. TECH. & INTELL. PROP. 133, 135 (Spring, 2006), citing http://www.riaa.com/news/newsletter/pdf/2005yearEndStats.pdf and http://www.riaa.com/issues/piracy/default.asp respectively).
5. Some refer to factors other than file sharing, such as "downturn in the global economy, changing tastes in key music buying demographics, competition from new media including the Internet, DVDs and video games, as well as a general decline in the quality, variety, and value for money of recorded music." *Id.* at 136; *see also* the highly controversial Felix Oberholzer & Koleman Strumpf, *The Effect of Filesharing on Record Sales An Empirical Analysis* (2004)

(paper forthcoming in the JOURNAL OF POLITICAL ECONOMY on file with the University of North Carolina analyzing the economic effect of file sharing on record sales by utilizing records of actual file sharing behavior), available at http://www.p2pnet.net/zero/FileSharing_March2004.pdf (Last visited November 18, 2006).

6. By June 2006, the RIAA filed suits against at least 20,000 alleged music copyright infringers. (Sag, *supra* note 4); *see generally* Hughes, *supra* note 3.

7. Against the most popular, Napster, whose peak user number estimates in February 2001 vary from 13.6 million (Bryan H. Choi, *The Grokster Dead-End*, 19 HARV. J. LAW & TEC 393 (Spring 2006)) to over 80 million (Niles Pratt, *The Next Generation of File Sharing Arrives,* Managing Intellectual Property, Vol. 148, p. 28 (April, 2005) (*A&M Records, Inc. v. Napster, Inc*., 239 F.3d 1004 (9th Cir. 2001)), *Aimster* (334 F.3d 643 (7th Cir. 2003)) StreamCast's Morpheus and Grokster (*supra* note 1) and, most recently, LimeWire (*Arista Records L.L.C. et al v. Lime Wire L.L.C. et al*, No. 06-5936 (S.D.N.Y. filed Aug. 4, 2006).

8. *Sony Corporation of America, et al. v. Universal City Studios, Inc., et al.*, 464 U.S. 417 (1984) with prior history at 429 F. Supp. 407 (C.D. Cal. 1977) (unfair competition claims dismissed); 480 F. Supp. 429 (C.D. Cal. 1979) (judgment for defendants); 659 F.2d 963 (9th Cir. 1981) (affirmed in part, reversed in part and remanded); rehearing denied, 9th Circuit, 1982; cert. granted, 457 U.S. 1116 (1982); reargument scheduled, 463 U.S. 1226 (1983), is most commonly known as "the Betamax case" based on the technology at issue in the dispute.

9. The first case, worldwide, regarding contributory/vicarious liability was a German case, *GEMA v. Grundig*, I ZR 8/54, 17 BGHZ 266; 1955 GRUR 492 in which the German Collecting Society for Musical Performing and Mechanical Reproduction Rights ("GEMA") sued Grundig, the makers of home tape recorders based mainly on a statute that made it unlawful to "interfere with or jeopardize" the exclusive rights of a copyright owner, "even indirectly." The court found that while statutory authority did not prohibit production of the recorders, the manufacturer was only to sell the recorders with notice of applicable law. (Katerina Gaita and Andrew F. Christie, *Principle or Compromise?: Understanding the Original Thinking Behind Statutory License and Levy Schemes For Private Copying*, Working Paper 04/04 of the Intellectual Property Research Institute of Australia at the University of Melbourne at 6 (May 2004).

10. It is worth noting that the Betamax and the VHS formats are not identical. Most notable is the difference in time limits at the time of the dispute. Betamax topped out at 60 minutes—not long enough for a feature length film—while VHS was able to record up to three hours of footage. Production of Betamax in the U.S. ended in 1993, and internationally, the last Betamax machine was sold in Japan in 2002 (*The Betamax vs VHS Format War*, Media College.com, *available at* http://www.mediacollege.com/video/format/compare/betamax-vhs.html (last visited Dec. 19, 2006). The VHS, on the other hand, was declared dead by the *Daily Variety* as a result of "natural causes" stemming from "loneliness" after 30 illustrious years (Diane Garrett, *VHS, 30, Dies of Loneliness*, Daily Variety, Pg. 1 (November 15, 2006)).

11. As the name implies, "time-shifting" is the practice by which customers record a broadcast for viewing at a later time. *Sony, supra* note 8 at 420.

12. It was considered a "fair use." For the law of fair use, *see* 17 U.S.C. § 107.

13. *Sony,* supra note 8 at 443-447.

14. Some contend that the decision of the Court was partially a result of the plaintiffs' failure to add more industry parties. The Court may have been concerned that it did not get to hear the interests of these parties, as it implies at 443 that the fate of the others who hold 90 percent of the content would be greatly affected by this decision (*Sony supra* note 8 at 443). Years later, in *Napster*, *supra* note 7, the plaintiffs were prudent in joining 18 parties, accounting for the ownership of a great majority of copyrighted music.

15. Specifically, the first party infringement was allegedly based on violations of the exclusive right of reproduction granted to copyright owners by 17 U.S.C. § 106. *Sony supra* note 8, at 433.

16. The Copyright Act of 1976, codified throughout Title 17 of the United States Code.

17. *Kalem Co. v. Harper Bros*., 222 U.S. 55 (1911) (holding that a salesperson of unauthorized copies of General Lew Wallace's book *Ben Hur* was liable for the commercial exploitation exercised by those to whom he sold the book).

18. 443 F.2d 1159 (Cal. 2d, 1971).

19. *Sony, supra* note 8 at 487.

20. *Id.*

21. *Id.* at 489-490 (holding it was enough that Sony's advertisements showed "Betamax as suitable for off-the-air recording of 'favorite shows,' 'novels for television,' and 'classic movies,' with no visible warning that such recording could constitute copyright infringement.").

22. 35 U.S.C. § 271(c) (carving an exception to contributory infringement for "a staple article or commodity of commerce suitable for substantial non-infringing use").

23. *Sony supra* note 8 at 442 (emphasis added). It should also be noted that while contributory and vicarious copyright infringement remain separate causes of action, because *Sony* only concerned contributory, it is unclear whether this standard applies to just contributory liability, or both (*see* Elizabeth Miles, *In re Aimster & MGM, Inc. v. Grokster, Ltd.: Peer-to-Peer and the Sony Doctrine*, 19 BERKELEY TECH. L.J. 21 at 49-50 (noting that while the *Sony* court "conflates" the two, it is implied that the Court meant to apply a "unified theory" of secondary liability)), as the Court even admits that the "lines between direct infringement, contributory infringement, and vicarious liability are not clearly drawn." (*Sony* at 435 n. 17). *But see Napster, supra* note 7 at 1022 (stating that the "staple article of commerce" defense in *Sony* only applies to contributory liability).

24. *See* Cristin Keegan, *Using Old Ideas to Catch New Infringers: How Courts Should Look to Patent Law to Apply Liability for Inducing Infringement*, 36 SETON HALL L. REV. 1015, 1033 (citing various sources to the effect that the standard is not as clear as it could have been and is likely to result in yet more litigation). *See also* Magdalena Ozarowski, *When is "Substantial" Substantial enough?*, 11 J. TECH. L. POL'Y 103, 108 (June 2006) (noting the "ambiguity" of the *Sony* (*infra* note 10) standard).

25. Jay Dratler, Jr., *Common Sense (Federal) Common Law Adrift in a Statutory Sea, or Why Grokster was a Unanimous Decision,* 22 SANTA CLARA COMPUTER & HIGH TECH. L.J. 413, 429 (Mar. 2006). *See generally* Ozarowski *supra* note 24.

26. Plaintiff's survey revealed 75.4 percent of the use was time-shifting, while the defendant's survey revealed 96 percent. *Sony, supra* note 8 at 424 (footnote 4).

27. Dratler, Jr., *supra* note 25 at 427-428 (explaining that it is unclear whether the Court went on to speak of "unauthorized time-shifting" because a) the "authorized time-shifting" would not have been enough to excuse *Sony* on its own, or b) because the question of users' liability was "so burning" as to warrant extra analysis).

28. Barrett Strong, Money (That's what I want) (Tamla 1959).

29. The inner workings of the system warrant explanation. Napster users could download the software for free from Napster's website. The Napster servers then connected with all online users and provided each with answers to where a sought file was located (i.e., on the hard drive of "Songguy123"). Once the requestor's computer knew this, the requestor would simply click "transfer" and the song, minimally diminished in quality, would appear on his hard drive minutes later. The files themselves were never actually on the Napster server. *Napster supra* note 7, at 1011-1013; Stephanie Greene, *Reconciling Napster with the Sony Decision and Recent Amendments to Copyright Law*, 39 AM. BUS. L.J. 57 (Fall 2001).

30. *Supra* note 7.

31. Press Release, Recording Industry Sues Napster for Copyright Infringement (Dec. 8, 1999), *available at* http://www.internetnews.com/ec-news/article.php/256621 (last visited Dec. 19, 2006).

32. For contributory or vicarious liability to exist there must be incidences of direct infringement. The claim was based on the direct infringement of 17 U.S.C. § 106 by the users of the system. The court found that none of the asserted fair use defenses held muster. They included space-shifting (the moving from one media to another that *Sony* and *RIAA v. Diamond Multimedia Sys. Inc.,* 180 F. 3d 1072 (9th Cir. 1999) found to be non-infringing . . . however, in *Sony* and *RIAA*, the shifting did not entail exposing the work to millions of people), sampling (which the court found to be commercial in that the industry regulates it generally, and collects royalties from other sites that sample), and permissive reproduction (which is not a fair use, but ii merely permitted). *Napster, supra* note 7, at 1013-1019.

33. *Napster, supra* note 7, at 1022.

34. *Id.* at 1020 ("We observe that Napster's actual, specific knowledge of direct infringement renders Sony's holding of limited assistance to Napster.").

35. *Id.* at 1022.

36. Miles, *supra* note 23, at 28.

37. *Napster supra* note 7, at 1022-1024.

38. *Id.* at 1024.

39. *Id.* at 1022.

40. Craig A. Grossman, *From Sony to Grokster, the Failure of the Copyright Doctrines of Contributory Infringement and Vicarious Liability to Resolve the War Between Content and Destructive Technologies*, 53 Buffalo L. Rev. 141, 234.

41. *Id.*

42. *Aimster, supra* note 7.

43. *Id.* at 646.

44. Grossman, *supra* note 40 at 235.

45. *Aimster, supra* note 7, at 649 ("the 9th Circuit erred in [*Napster*], in suggesting that actual knowledge of specific infringing uses is a sufficient condition for deeming a facilitator a contributory infringer").

46. *Id.* at 650 ("Willful blindness is knowledge, in copyright law . . . as it is in law generally.").

47. *Id.* at 652.

48. *Id.* at 650.

49. *Id.* at 653 ("If the infringing uses are substantial then to avoid liability as a contributory infringer the provider of the service must show that it would have been disproportionately costly for him to eliminate or at least reduce substantially the infringing uses.").

50. *See* Hughes, *supra* note 3, at 764 ("The breadth of Judge Posner's departure from Sony is matched only by its confidence. One is reminded of Karl Llewelyn's description of a judge overruling precedent with reinterpretation: 'so lip service is done to that dogma, while the rule which the prior court laid down is disemboweled. The execution proceeds with due respect, with mandarin courtesy.' While many of us think the headlines about P2P coupled with the carte blanche granted by the 9th Circuit triggered the granting of certiorari in Grokster, perhaps, at the end of the day, it was really Judge Posner's implicit challenge to the Court."); *see also* Miles, *supra* note 23 at 42 ("Perhaps the most notable aspect of the Aimster decision was Judge Posner's call, in extensive dicta, for an entirely new version of the Sony rule."), *and* Matthew J. Rust, *Nobody uses Betamax anymore, and neither should the Supreme Court: Why MGM v. Grokster Should be Overturned*, 28 Hamline L. Rev. 549 at 573 ("The Seventh Circuit also applied Sony, but in a very different manner . . . The balancing tests are inherently flawed . . .").

51. *See Aimster*, *supra* note 7, at 654-655.

52. *Aimster, supra* note 7, at 655.

53. Rust *supra* note 50 at 574 ("By confusing the elements of contributory infringement and vicarious liability, the Seventh Circuit has further added to the inconsistency in peer-to-peer litigation.").

54. Seth Robert Belzley, *Grokster and Efficiency in Music*, 10 Va. J. L. & Tech. 10, 7 (Fall, 2005).

55. Plaintiffs included METRO-GOLDWYN-MAYER STUDIOS, INC.; COLUMBIA PICTURES INDUSTRIES, INC.; DISNEY ENTERPRISES, INC.; PARAMOUNT PICTURES CORPORATION; TWENTIETH CENTURY FOX FILM CORPORATION; UNIVERSAL CITY STUDIOS LLP, f/k/a Universal City Studios, Inc.; NEW LINE CINEMA CORPORATION; TIME WARNER ENTERTAINMENT COMPANY, LP; ATLANTIC RECORDING CORPORATION; ATLANTIC RHINO VENTURES, INC., d/b/a Rhino Entertainment, Inc.; ELEKTRA ENTERTAINMENT GROUP, INC.; LONDON-SIRE RECORDS, INC., LP; WARNER BROTHERS RECORDS, INC.; WEA INTERNATIONAL INC.; WARNER MUSIC LATINA, INC., f/k/a WEA Latina, Inc.; ARISTA RECORDS, INC.; BAD BOY RECORDS; CAPITOL RECORDS, INC.; HOLLYWOOD RECORDS, INC.; INTERSCOPE RECORDS; LAFACE RECORDS; MOTOWN RECORD COMPANY; RCA RECORDS LABEL, a unit of BMG Music d/b/a BMG Entertainment; SONY MUSIC ENTERTAINMENT, INC.; UMG RECORDINGS, INC.; VIRGIN RECORDS AMERICA, INC.; WALT DISNEY RECORDS, a division of ABC, Inc.; ZOMBA RECORDING CORP.

56. *See generally Grokster, supra* note 1.

57. *See generally MGM Studios, Inc. v. Grokster Ltd*., 380 F.3d 1154.

58. Petition for cert. filed, U.S.L.W. (U.S. Oct. 8, 2004), cert. granted, 73 U.S.L.W. 3350 (U.S. Dec 10, 2004) (No. 04-480).

59. *Grokster, supra* note 1 at 2771.

60. Belzley, *supra* note 54 at 7.

61. There were three opinions. Justice Souter delivered the opinion of the court, Justice Ginsburg wrote a concurrence joined by Chief Justice Rehnquist and Justice Kennedy, and Justice Breyer wrote a concurrence joined by Justice Stevens and Justice O'Connor.

62. *Id.*

63. *Id.* It should be noted that perhaps MGM was attempting to pull the lack of knowledge carpet out from under the providers as was suggested should be done.

64. *Id.* at 2772-2773.

65. *Id.* at 2774.

66. *Id.*

67. *Id.* at 2782.

68. *Id.* at 2780.

69. *Id.*

70. *Id.*

71. *Id.* at 2789 (Breyer, J. Concurring).

72. *Id.* at 2788.

73. *Id.* at 2794.

74. *See generally* id at 2783 (Ginsburg, J. Concurring).

75. *Id.* at 2785.

76. *See* Alexi Alexis, *Grokster Stops Offering P2P Software to Settle the Lawsuit by Copyright Holders*, 71 Pat. Trademark & Copyright J. 29 (Nov. 11, 2005).

77. *MGM Studios, Inc. v. Grokster, Ltd*., 2006 U.S. Dist. LEXIS 73714 (2006).

78. Hughes, *supra* note 3.

79. *Id.* at 760.

80. *Grokster, supra* note 1 at 2780 (". . . mere knowledge of infringing potential or of actual infringing uses would not be enough here to subject a distributor to liability.").

81. *Id.* ("Nor would ordinary acts incident to product distribution, such as offering customers technical support or product updates, support liability in themselves.").

82. *Id.* at 278.

83. *Id.*

84. *Id.* at note 12.

85. *Id.*

86. *Id.*

87. For more on the uncertainty of sliding scales *see generally* Jason Green, *Is Zippo's Sliding Scale a Slippery Slope of Uncertainty? A Case for Abolishing Web Site Interactivity as a Conclusive Factor in Assessing Minimum Contacts in Cyberspace*, 34 J. Marshall L. Rev. 1051 (Summer, 2001) (as applied to personal jurisdiction and due process in internet law); Linda Sandstrom Simard, *Hybrid Personal Jurisdiction: It's Not General Jurisdiction, or Specific Jurisdiction, but is it Constitutional?*, 48 Case W. Res. 559 (Spring, 1998) (as applied to personal jurisdiction in general); and *see* Jeff A. Anderson, Gena E. Cadieux, George E. Hays, Michael B. Hingerty, Richard J. Kaplan, *Special Project: The Work Product Doctrine*, 68 Cornell L. Rev. 760 at 826-827 (as applied to the work product rules of discovery).

88. Gnutella (2000), LimeWire (2000), Kazaa (2001), eDonkey (2004).

89. MySpace (2003), Facebook (2004), YouTube (2005).

90. *See generally* Choi, *supra* note 7.

91. PayPal is an extremely popular online payment exchange (www.paypal.com).

92. "Streaming," as opposed to "downloading" connotes that there are protections against a user pulling the videos from the site for permanent storage on his or her hard drive. The use is limited to an on-demand type arrangement where a user clicks play, and without ever "possessing" the work, may play and replay it at his or her leisure.

93. *See* http://www.YouTube.com/t/about (last visited November 30, 2006).

94. Choi, *supra* note 7, at 407.

95. *Id.* at 407 ("These OSPs are exempted from secondary liability under section 512(c) of the Digital Millennium Copyright Act ("DMCA") as long as they comply expeditiously in removing infringing material upon notification in the form of a 'takedown notice.'"); Digital Millennium Copyright Act of 1998, Pub. L. No. 105-304, 112 Stat. 2860 (1998) (codified as amended in scattered sections of 17 U.S.C.). *See* Stan Beer, *Universal and MySpace: A clash of old and new worlds*, iTWire (November 21, 2006) *at* http://www.itwire.com.au/content/view/7327/983/ (last visited Dec. 19, 2006).

96. 17 U.S.C. § 512(c)(1)(A)(iii).

97. 17 U.S.C. § 512(c)(1)(B).

98. Anthony Falzone, *Will Universal's Campaign Against User-Generated Content Lead Us Back to Sony?*, Stanford Law School Center for Internet Society, at http://cyberlaw.stanford.edu/node/5049 (Dec. 16, 2006) (last visited Dec. 19, 2006) (explaining that MySpace might be sending certain advertisements to certain customers who view non-copyrighted material that suits the image of its advertising client, thereby directly benefiting financially).

99. Jeff Leeds & Andrew Ross Sorkin, *Music Companies Grab a Share of the YouTube Sale*, N.Y. Times. Sec. C, p. 1 (Oct. 19, 2006).

100. YouTube also agreed to meet with the Tokyo based Japan Society for Rights of Authors, Composers and Publishers ("JASRAC") to discuss Japanese content owners' concerns regarding infringement on the site. This occurred after YouTube removed about 30,000 allegedly infringing files in October of 2006. (YouTube to Meet Japan Media on Copyright Protest, Reuters (Dec. 19, 2006), *at* http://today.reuters.com/news/articlenews.aspx?type=internetNews&storyID=2006-12-20T025753Z_01_T146637_RTRUKOC_0_US-YOUTUBE-JAPAN.xml (last visited Dec. 19, 2006).

101. It is necessary, for this analysis, to understand MySpace beyond a simple online yearbook, as many laymen believe it to be. The site *also* allows (and Universal would say "encourages") users to upload onto their personal pages videos and music—naturally the majority of which is copyrighted—through its wholly owned or controlled servers. (*See generally* www.myspace.com).

102. Dawn C. Chmielewski, *MySpace is Sued by Universal Music*, L.A. Times, Sec. C, p. 1 (Nov. 18, 2006).

103. *UMG Recordings Inc. v. MySpace Inc.*, No. CV 06-07361, (filed C.D.Ca., Nov. 17, 2006) at 11.

104. Chmielewski, *supra* note 10 (Universal also filed two lower profile suits against Grouper Networks Inc. and Bolt Inc. over similar allegations).

105. *UMG Recordings Inc. v. MySpace Inc.*, No. CV 06-07361, (filed C.D.Ca., Nov. 17, 2006), at 7-8, 13.

106. *See* William Patry, *Grokster Remand Opinion*, The Patry Copyright Blog (Sept. 28, 2006), *at* http://williampatry.blogspot.com/2006/09/grokster-remand-opinion.html (last visited Dec. 19, 2006).

107. *See MGM v. Grokster*, 259 F. Supp. 2d 1029 (2006).

108. Patry Blog, *supra* note 106.

109. *Id.*

110. *See generally Grokster, supra* note 1.

111. Roberts took the bench on September 29, 2005, to replace the late Chief Justice William Rehnquist, and Alito took the bench on January 31, 2006 to replace Sandra Day O'Connor (www.supremecourtus.gov).

112. Universal complaint, *supra* note 105, at 13, 18.

113. Tom Zeller Jr., *Trying to Tame an Unruly Technology*, N.Y. Times, Sec. C, p. 1 (Jun. 28, 2005).

114. Thomas Mennecke, *LimeWire Works to Block Unlicensed Material*, Slyck News (Sept. 25, 2005), *at* http://www.slyck.com/news.php?story=927. (last visited Dec. 19, 2006).

115. *See* Arista complaint, *supra* note 7.

116. *Id.*

117. *Id.* at 13.

118. Sharman was the owner and operator of the popular service "Kazaa."

119. *Universal Music Australia v. Sharman License Holdings Ltd.*, [2005] FCA 1242 at 3.

120. Arista complaint, *supra* note 7, at 10-15.

121. Zeller Jr., *supra* note 113.

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## VLA Receives Grant from New York State Music Fund

Volunteer Lawyers for the Arts was recently awarded a two-year grant from the New York State Music Fund, established by the New York State Attorney General at Rockefeller Philanthropy Advisors, to support an "Ask the Music Lawyer" program. This grant will help support workshops and clinics for musicians from the New York region, the expansion of our mediation service to handle music-related negotiations, and the development of a special section of the VLA website to include music-related resources and information.

For more details about VLA's award and the New York State Music Fund, please see http://www.vlany.org/forms/nysmf_vla_press_release.pdf. For questions about this, or any other, VLA program, please contact Elena M. Paul, Esq. at (212) 319.2787 ext. 17.

## VLA Legal and Business Bootcamp for Arts Professionals™

***Saturday, April 21, 2007 in New York City, 10:00 a.m. to 6:00 p.m.***

**VLA Legal and Business Bootcamp for Arts Professionals**™ is a comprehensive program about the legal and business issues that affect individual artists and individuals within organizations and cultural institutions. This program is for professionals within organizations, individual artists, and art students at all stages of professional development. Lawyers, other professionals who represent artists and arts organizations, and law students will also benefit from the course. For registration, other Bootcamp locations and dates, and additional information, please see www.vlany.org/bootcamp.

## Career Development and Private Counseling

VLA's Executive Director and senior staff attorneys are available for private career counseling and to review resumes in the context of charting your desired career path. By private appointment only. Please contact Alexei Auld, Esq., Director of Legal Services, at (212) 319.2787 ext. 12 to arrange an appointment.

## Mark Litwak Seminar: "Risky Business: Financing & Distributing Your Independent Film"

***Saturday, April 28, 2007 in New York City, 10:00 a.m. to 5:00 p.m.***

Explore various independent film financing methods and learn how to select the best distributor for your project. Topics include financing via pre-sales, debt, and private investors; production incentives; negotiating tactics; typical contract terms; cross-collaterization; and creative accounting.

For registration, event location, and more event details, please see www.vlany.org. Please contact Ben Brandow at (212) 319.2787 ext. 16 with any other inquiries about this event. For information on Mark Litwak, please see www.marklitwak.com.

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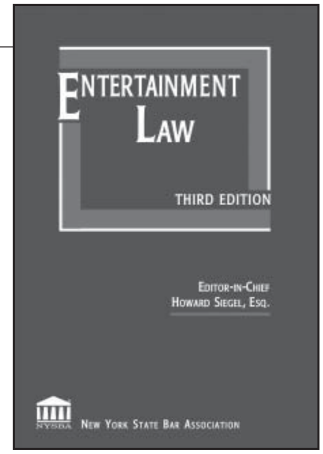


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