NYSBA SPRING 2018 | VOL. 29 | NO. 1

# Entertainment, Arts and Sports Law Journal

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

www.nysba.org/EASL

# Table of Contents

# Remarks from the Chair

Welcome to my first "Remarks from the Chair." The photograph below is of Mark Miller and myself congratulating each other, for his election as President of the New York State Bar Association, and for my election as the EASL Section Chair. Two solo lawyers in Manhattan making good!

The photo was taken during NYSBA's Annual Meeting week in late January 2018. On January 23rd, EASL presented two excellent continuing legal education panels. The first addressed concerns that arise when entertainment, visual, and performing arts related businesses decide to close for various reasons, and the second dealt with legal and business issues related to the proliferation of audio-visual content distributed across multiple platforms, greater media competition, and changing business models.

Thanks again to Beth Gould (EASL's rock star liaison at NYSBA in Albany), my fellow EASL Annual Meeting program planning Co-Chairs (**Irina Tarsis**, **Ethan Bordman, Pamela Jones, Robert Siegel** and **Mary Ann Zimmer**), and of course to our superb panel moderators and speakers. Initial feedback from the packed house in attendance was very positive, with a few complaints that EASL's 2018 annual program was not long enough!

If you were not able to attend the Annual Meeting, a transcript of our program is in this issue of the *EASL Journal*. However, it is no proxy for the good humor, food and drinks shared, and connections made, at the first ever post-program networking reception co-sponsored by the EASL and Intellectual Property Sections. As that was sold out well in advance; to avoid being shut out next year, please register early for our January 2019 annual program and reception.

During my tenure as EASL Chair, I hope to help increase the professional and personal benefits for all of our members, which in part can flow from more cross-pollination or collaboration among EASL members, other NYSBA Sections, and additional organizations related to entertainment, arts and sports.

EASL will continue to develop and present not only relevant and affordable CLE programs, but also more committee meetings, informal breakfasts and brown bag lunches, networking receptions, and other fun social events. Additional contemplated initiatives include increased efforts to create more job and work opportunities, mentoring, internship programs and pro bono clinics.

The best way to stay on top of all this is by visiting the EASL website (www.nysba.org/easl), where you can explore our calendar of upcoming EASL events—such as the Pro Bono Clinic that took place in February at the Gibney Dance Center, our 7th Annual Legal Aspects of Theatrical Production on March 27-28th at the Actor's Temple, the EASL Spring Meeting in May (Details TBD), and EASL's always popular "Overview and Introduction to Entertainment Law" on June 13th (Details TBD). This last program is filled with substantive information and practice tips for both newly admitted and experienced lawyers.

On EASL's website, you can also access an archive of the *EASL Journal* or view the EASL Blog (both edited and managed by **Elissa D. Hecker**, a former EASL Chair, to whom we all also owe thanks), view membership rosters, join a committee, or participate in EASL's online community (through which, in part, you can seek advice from colleagues regarding perplexing problems or share helpful contract forms and other documents). You can also read a brief biography about me.

If you would like to get more involved, have any questions or suggestions, or if I could be of help in any way, please contact me directly at 212-832-4800 or bskidelsky@mindspring.com.

Thanks again for being an EASL member and for electing me as Chair at the start of our Section's 30th year! I stand on the shoulders of a list of impressive predecessors, including *inter alia* (as we lawyers often write) our Immediate Past Chair **Diane Krausz**.

I look forward to hearing from, working with, and seeing you all at one of the many events that EASL provides for its members throughout the year.

**Best Regards,**
**Barry Skidelsky**

# Editor's Note

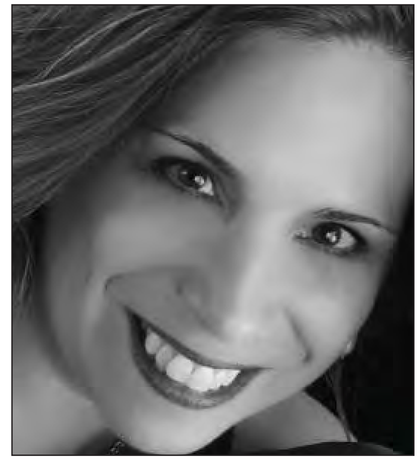
This issue sadly bids adieu to the wonderful Immediate Past Chair, Diane Krausz, and welcomes our new and enthusiastic Chair, Barry Skidelsky. Barry has endless energy and great plans for the EASL Section, as you can see from his Remarks and speech at the Annual Meeting.

This issue is full of quality content. For those of you who were unable to attend the Annual Meeting, or those who did attend and want a refresher, this issue includes the Transcript, in addition to the BMI/Phil Cowan Memorial Scholarship winning articles, and a Law Student Initiative piece. We also have the next installments of our wonderful columnists, who write on issues concerning our fields, as well as larger issues in the legal and political spectrum. These authors cover the spectrum from immigration to legislation.

Please feel free to email me with any comments or submissions you may have. For shorter, timely pieces, please send them to me for the EASL Blog. More substantive articles of the highest quality, related to the EASL fields, will always have a home in this *Journal*.

Enjoy reading!

**The next *EASL Journal* deadline is Friday, April 27, 2018**



**Elissa D. Hecker 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 also a Past Chair of the EASL Section, Co-Chair and creator of EASL's Pro Bono Committee, Editor of the EASL Blog, Editor of *Entertainment Litigation, Counseling Content Providers in the Digital Age*, and *In the Arena*, a member of the Board of Editors for the *NYSBA Bar Journal*, Chair of the Board of Directors for Dance/NYC, a member and former Trustee of the Copyright Society of the U.S.A (CSUSA), former Co-Chair of CSUSA's National Chapter Coordinators, and Associate Editor and member of the Board of Editors for the *Journal* of the CSUSA. Elissa is a repeat Super Lawyer, Top 25 Westchester Lawyers, and recipient of the CSUSA's inaugural Excellent Service Award. She can be reached at (914) 478-0457, via email at eheckeresq@eheckeresq.com or through her website at www.eheckeresq.com.**

## Pro Bono Update

By Elissa D. Hecker, Carol Steinberg, Kathy Kim and Irina Tarsis
Pro Bono Steering Committee

### Clinics

Our most recent Clinic took place on Sunday, February 25th in conjunction with the IP Section, at Dance/NYC's Annual Symposium, held at the Gibney Dance Center. In addition to the EASL and IP-related topics, our volunteer attorneys also dealt with questions pertaining to sexual harassment issues and policies.

Thank you to the following volunteers who worked their pro bono magic to very satisfied clients:

Cheryl L. Davis, Carol S. Desmond, Elissa D. Hecker, Eirini (Irene) Ioannidi, Kathy Kim, Anne LaBarbera, Keith Ferguson, Merlyne Jean-Louis, Diane Krausz, Amy A. Lehman, Kimberly M. Maynard, Madeline Nichols, Ashley Tan, Joseph Tedeschi, Camille Turner, Adam N. Weissman, Stacy Wu.

### Clinics

Elissa D. Hecker coordinates legal clinics with various organizations.

- Elissa D. Hecker, eheckeresq@eheckeresq.com

### Speakers Bureau

Carol Steinberg coordinates Speakers Bureau programs and events.

- Carol Steinberg, elizabethcjs@gmail.com or www.carolsteinbergesq.com

### Litigations

Irina Tarsis coordinates pro bono litigations.

- Irina Tarsis, tarsis@gmail.com

We look forward to working with all of you, and to making pro bono resources available to every EASL member.

# *Pro Bono Opportunities Guide*

**www.nysba.org/probono**

***Want to volunteer?***
This easy-to-use guide will help you find the right volunteer pro bono opportunity. You can search by county, subject area, and population served.


NYSBA
DO THE PUBLIC GOOD
VOLUNTEER FOR PRO BONO

*Questions about pro bono service?*
www.nysba.org/probono
(518) 487-5641
probono@nysba.org

NYSBA

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

# Law Student Initiative Writing Contest

**Congratulations to Caroline Barry**
**of St. John's University School of Law for her article entitled:**

**Theft or Transformation? Let Hip-Hop Breathe—Sampling as Fair Use**

The Entertainment, Arts and Sports Law (EASL) Section of the New York State Bar Association offers 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.

## Requirements

- **Eligibility**: Open to all full-time and part-time J.D. candidates who are EASL Section members. A law student wishing to submit an article to be considered for publication in the EASL Journal must first obtain a commitment from a practicing attorney (admitted five years or more, and preferably an EASL member) familiar with the topic to sponsor, supervise, or co-author the article. The role of sponsor, supervisor, or co-author shall be determined between the law student and practicing attorney, and must be acknowledged in the author's notes for the article. In the event the law student is unable to obtain such a commitment, he or she may reach out to Elissa D. Hecker, who will consider circulating the opportunity to the members of the EASL Executive Committee.
- **Form**: Include complete contact information, name, mailing address, law school, 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, April 27, 2018.**
- **Submissions**: Articles must be submitted via a Word email attachment to eheckeresq@eheckeresq.com.

## 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 website.

# Phil Cowan Memorial/BMI Scholarship Writing Competition

Law students, take note of this publishing and scholarship opportunity: The Entertainment, Arts and Sports Law Section of the New York State Bar Association (EASL), in partnership with BMI, the world's largest music performing rights organization, has established the Phil Cowan Memorial/BMI Scholarship! Created in memory of Cowan, an esteemed entertainment lawyer and a former Chair of EASL, the Phil Cowan Memorial/BMI Scholarship fund offers *up to two awards of $2,500 each on an annual basis* in Phil Cowan's memory to a law student who is committed to a practice concentrating in one or more areas of entertainment, art or sports law.

The Phil Cowan Memorial/BMI Scholarship has been in effect since 2005. It is awarded each year at EASL's Annual Meeting in January in New York City.

## The Competition

Each Scholarship candidate must write an original paper on any legal issue of current interest in the area of entertainment, art or sports law.

The paper should be twelve to fifteen pages in length (including *Bluebook* form footnotes), double-spaced and submitted in Microsoft Word format. PAPERS LONGER THAN 15 PAGES TOTAL WILL NOT BE CONSIDERED. The cover page (*not* part of the page count) should contain the title of the paper, the student's name, school, class year, telephone number and email address. The first page of the actual paper should contain only the title at the top, immediately followed by the body of text. The name of the author or any other identifying information must not appear anywhere other than on the cover page. All papers should be submitted to designated faculty members of each respective law school. Each designated faculty member shall forward all submissions to his/her Scholarship Committee Liaison. The Liaison, in turn, shall forward all papers received by him/her to the three (3) Committee Co-Chairs for distribution. The Committee will read the papers submitted and will select the Scholarship recipient(s).

## Eligibility

The Competition is open to all students—*both J.D. candidates and L.L.M. candidates*—attending eligible law schools. "Eligible" law schools mean all accredited law schools within New York State, along with Rutgers University Law School and Seton Hall Law School in New Jersey, and up to ten other accredited law schools throughout the country to be selected, at the Committee's discretion, on a rotating basis.

## Free Membership to EASL

All students submitting a paper for consideration, who are NYSBA members, will immediately and automatically be offered a free membership in EASL (with all the benefits of an EASL member) for a one-year period, commencing January 1st of the year following submission of the paper.

## Yearly Deadlines

***December 12th***: Law School Faculty liaison submits all papers she/he receives to the EASL/BMI Scholarship Committee.

***January 15th***: EASL/BMI Scholarship Committee will determine the winner(s).

*The winner(s) will be announced, and the Scholarship(s) awarded at EASL's January Annual Meeting.*

## Submission

All papers should be submitted via email to Beth Gould at bgould@nysba.org no later than December 12th.

## Prerogatives of EASL/BMI's Scholarship Committee

The Scholarship Committee is composed of the current Chair of EASL and, on a rotating basis, former EASL Chairs who are still active in the Section, Section District Representatives, and any other interested member of the EASL Executive Committee. *Each winning paper will be published in the* EASL Journal *and will be made available to EASL members on the EASL website*. BMI reserves the right to post each winning paper on the BMI website, and to distribute copies of each winning paper in all media. *The Scholarship Committee is willing to waive the right of first publication* so that students may simultaneously submit their papers to law journals or other school publications. *In addition, papers previously submitted and published in law journals or other school publications are also eligible for submission to The Scholarship Committee*. The Scholarship Committee reserves the right to submit all papers it receives to the *EASL Journal* for publication and the EASL Web site. The Scholarship Committee also reserves the right to award only one Scholarship or no Scholarship if it determines, in any given year that, respectively, only one paper, or no paper. is sufficiently meritorious. All rights of dissemination of the papers by each of EASL and BMI are non-exclusive.

## Payment of Monies

Payment of Scholarship funds will be made by EASL/BMI directly to the law school of the winner, to be credited against the winner's account.

## About BMI

BMI is an American performing rights organization that represents approximately 700,000 songwriters, composers, and music publishers in all genres of music. The non-profit making company, founded in 1940 collects license fees on behalf of those 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 BMI collects for the "public performances" of its repertoire of approximately 10.5 million compositions are then distributed as royalties to BMI-member writers, composers and copyright holders.

## About the New York State Bar Association/EASL

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

The more than 1,500 members of the Entertainment, Arts and Sports Law Section of the NYSBA represent varied interests, including headline stories, matters debated in Congress, and issues ruled upon by the courts today. The EASL Section provides substantive case law, forums for discussion, debate and information-sharing, pro bono opportunities, and access to unique resources including its popular publication, the *EASL Journal*.

# 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, NY 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.

NEW YORK STATE BAR ASSOCIATION

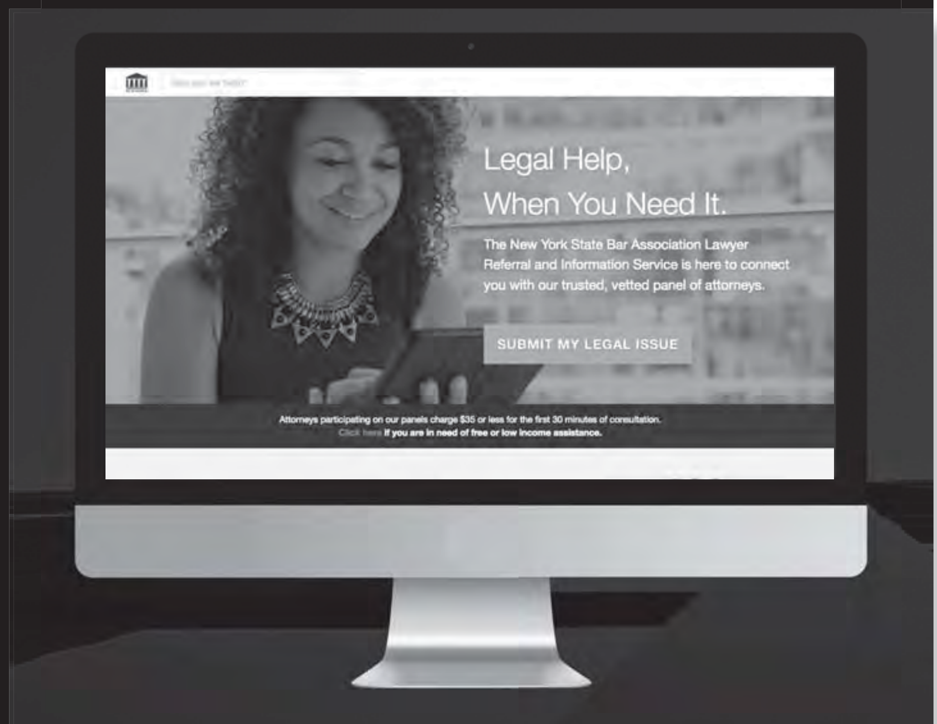
QUALIFIED. CONSISTENT. TRUSTED.

# LAWYER REFERRAL

As the world evolves, so does the New York State Bar Association Lawyer Referral and Information Service.

In the age of online marketplaces, the legal profession is experiencing a moment of opportunity. By deeply embedding these tools in our program, we have laid the foundation for seamless connection between our LRIS members and the public.

Better yet, the NYSBA LRIS meets the ABA Standards for Lawyer Referral. You can trust the growth of your practice to a top-notch referral service.




## NEW, QUALITY REFERRALS

Our trained, experienced staff screens these calls and passes on the vetted legal matters to our panel members.

## COST EFFECTIVE

With one low yearly cost to join our panels, our goal is for every attorney to receive referrals that allow them to earn back the cost of joining the panel and then some.

## TRUSTED

Meets ABA Standards for Lawyer Referral

## WEB & MOBILE BASED

Our platform offers a range of benefits to members, including online access to your referrals and disposition reporting.

## FOR MORE INFORMATION

www.nysba.org/JoinLR | LR@nysba.org | 800.342.3661

NYSBA

# Some Bills on the Hill in 2017[1]

By Cheryl Davis

The world was an eventful place in 2017 for the entertainment and arts industries—not least of all in terms of proposed legislation. Some key bills are described below.

On March 30, 2017, Rep. Jerry Nadler introduced the Fair Play Fair Pay Act of 2017. This bill would amend current law by, *inter alia,* requiring terrestrial broadcast (i.e., AM/FM) radio stations to pay royalties for their nondigital transmissions of recordings, and would call for payment of performance royalties for pre-1972 sound recordings.

*"Damages in such cases would be limited to $15,000 per act of infringement with a $30,000 maximum, and injunctive relief would not be a potential remedy."*

Needless to say, the bill garnered attention—both positive and negative—from the music community. The introduction of this bill along with the Allocation for Music Producers (AMP) Act, Performance Royalty Owners of Music Opportunity to Earn (PROMOTE) Act, and Compensating Legacy Artists for their Songs, Service, and Important Contributions to Society (CLASSICS) Act shows that the music industry (and its lobbyists) were very active on the legislative front over the past year.

Later in the year, on October 4, 2017, the Copyright Alternative in Small-Claims Enforcement (CASE) Act of 2017 was introduced in the House by Rep. Hakeem Jeffries of Brooklyn. The CASE Act, which has bipartisan support, would establish a "small" copyright claims tribunal in the U.S. Copyright Office and give small copyright holders a much-needed tool to combat copyright infringement without having to bear the expense of going to federal court—which can be an extremely expensive proposition for even the most straightforward infringement case.

If the CASE Act is passed, individual creators and other small copyright owners would not be forced to hire a lawyer (making it a mixed blessing for some copyright attorneys) or to go to federal court. Proceedings would be conducted remotely, so that claimants would not have to bear the cost or inconvenience of travel. Damages in such cases would be limited to $15,000 per act of infringement with a $30,000 maximum, and injunctive relief would not be a potential remedy.

Under the CASE Act, participation in the small claims tribunal would be on a voluntary basis and would not interfere with either party's right to a jury trial. The bill would require the Copyright Office to expedite certificates of registration (a prerequisite to starting a copyright action) for parties with a matter before the small claims court; it would also allow a copyright holder to request a subpoena to compel an internet service provider to disclose the identity of a user accused of infringement. The latter provision would be a boon to creators, among others, in their long-running fight against internet piracy. Rep. Nadler, who became the ranking Democrat on the Judiciary Committee after Rep. John Conyers' departure, agreed to co-sponsor the bill; this support is expected to give the CASE Act an additional push on its legislative journey.

**Cheryl Davis**

*"According to Rep. Collins, the bill's lead co-sponsor in the House, '[o]nly by ushering music licensing into the twenty-first century can we promote artistry and its appreciation long into the future, and that's exactly what we're doing with the Music Modernization Act'…"*

The Music Modernization Act of 2017 (another bill introduced before the House with bipartisan support) was one of the last bills of the year, having been introduced before the House on December 21, 2017; a version of the bill (also introduced with bipartisan support) was one of the first introduced before this year on January 24, 2018. The stated goal of the bill(s) is to "provide clarity and modernize the licensing system for musical works under section 115…[and] to ensure fairness in the establishment of certain rates and fees under sections 114 and 115." According to Rep. Collins, the bill's lead co-sponsor in the House, "[o]nly by ushering music licensing into the twenty-first century can we promote artistry and its appreciation long into the future, and that's exactly what we're doing with the Music Modernization Act." The bill calls for, *inter alia*, the creation of a "Mechanical Licensing Collective" by copyright owners that would grant blanket mechanical licenses for interactive streaming or digital downloads and would create a database including "unmatched" works (where the copyright owner has not been identified or located), allowing copyright owners to claim their songs and collect royalties accordingly.

As part of its legislative process, on January 26, 2018, the House of Representatives Judiciary Committee held a field hearing in New York called "Music Policy Issues: A Perspective from Those Who Make It." According to House Judiciary Committee Chairman Rep. Goodlatte, the witnesses were to "highlight how the music business has changed over the past decade resulting in a number of policy issues of concern. Most, if not all, of these policy issues are the subject of pending legislation."[2] The witnesses at the field hearing included Neil Portnow, the president of the Recording Academy, and Dionne Warwick, who said: "How could it be that 1979's "I'll Never Love This Way Again" receives compensation, but 1969's "I'll Never Fall in Love Again"…does not….Due to a quirk in the history of copyright law, February 15, 1972 effectively serves as the benchmark of my value."[3] She went on to say, in closing: "As I once sang (notably in 1967), I say a little prayer for you, and hope that this is the year when all those who write, sing, record and produce the songs we love are recognized—and appropriately compensated—for their work."

Whatever the reason, artists and their rights are active on the Hill these days. We will continue to monitor the progress of the proposed legislation and keep you updated.

## Endnotes

1. Apologies to the Beatles—but the musicality of the title connects to the subject matter of a number of the bills proposed in 2017.
2. https://judiciary.house.gov/press-release/goodlatte-statement-field-hearing-music-policy-issues-perspective-make/.
3. U.S. House of Representatives Committee on the Judiciary Hearing on "Music Policy Issues: A Perspective from Those Who Make It," January 26, 2018, Statement of Dionne Warwick, p. 1.

**Cheryl L. Davis is the General Counsel of the Authors Guild. She is a former partner at the firm of Menaker & Herrmann LLP, where her practice focused on counseling clients on intellectual property issues. She has made numerous presentations and written on intellectual property for the commercial arena, as well as for theater artists and other creatives. She recently received the Cornerstone Award for her pro bono work from the Lawyers Alliance of New York. In her copious spare time, she is also an award-winning playwright and TV writer.**

# Sports and Entertainment Immigration: Immigration by the Numbers and Some Recent Developments of Note

By Michael Cataliotti

In our last installment of Sports and Entertainment Immigration, we chronicled many of the relevant immigration activities that took place in the first year of the Trump Administration. The intention of that installment was to provide a focused reference in a time when there was a chaotic barrage of information that was coming at each and every one of us.

**Michael Cataliotti**

> *"In the short term, yes, of course some folks will lose out on job opportunities to some people who were not born here."*

In this installment, we look at some of the numbers behind the immigration conversation. Starting with the most common arguments for more restrictive immigration policies, we will then move to evaluate the immigration statistics with a particular emphasis on their relationship to the entertainment, arts, and sports industries, and then conclude by looking at some of the more recent developments that have been in the news. However, because of a lack of available information, referenced below, we will need to focus on some broader points. Nonetheless, this discussion is important, because immigration continues to be a ripe topic for debate online, in the news, across magazines, and of course, among families, friends, and scholars. Due to the frequent barrage of information—some fact, some opinion, all aimed at being persuasive—having a focused reference of generally accepted facts and figures should prove beneficial to each of us.

## The Emotional Argument

As the topic of immigration can have a very personal touch, we often see arguments pro or against come from very emotional places. So, to know the truth of some of these statements, we take up a few of them here.

### Immigrants Take Jobs Away from Americans and Do Not Contribute as Much as They Receive

This has been an argument against immigration for more than a century. Dating back to the early 1900s, we see the argument proffered by Samuel Gompers, a pro-labor, anti-immigrant representative, in his debate with pro-immigration advocates.[1] More recently, however, Attorney General Jeff Sessions, in his renunciation of the Deferred Action for Childhood Arrivals (DACA) program, stated, "It also denied jobs to hundreds of thousands of Americans by allowing those same illegal aliens to take those jobs."[2] In the specific sense, it is unfounded that DACA recipients have taken jobs from other Americans.[3] This is because we are at statistically full employment and DACA recipients are typically well-educated.[4]

> *"The larger concern, however, should be that '[i]f […] low-skilled immigration continues to decline in future decades, U.S. firms, […] are likely to face pressure to alter their production techniques in a manner that replaces low-skilled labor with other factors of production.'"*

The reality, however, is yes-and-no and relates to a short term and long-term perspective: In the short term, yes, of course some will lose out on job opportunities to people who were not born here. Further, in most instances, because the majority of foreign-born individuals in the U.S. have a high-school degree or less,[5] that person who is not offered the job is likely to be someone who has a high-school education or its equivalent. However, in its evaluation of "how and why low-skilled immigrant labor supply has changed" and specifically, "the factors that govern the magnitude of low-skilled immigration," three economists with the University of California, San Diego published an article in *Brookings Papers on Economic Activity,* that concluded: "migration rates [of workers with a high-school education or less] from major U.S. sending nations will drop sharply in coming decades."[6] The larger concern, however, should be that "[i]f […] low-skilled immigration continues to decline in future decades, U.S. firms, […] are likely to face pressure to alter their production techniques in a manner that replaces low-skilled labor with other factors of production."[7] This has already been reported by *Tech Republic*, citing a Ball State University report that "found that machines will master half of low-skilled jobs currently performed by humans,"[8] Quartz, writing about a report released by the Organisation for Economic Co-operation and Development (OECD) that indicates: "Technology displays the strongest association with both polarization and de-industrialisation,"[9,10] and was most recently touched upon by *The New York Times* in its piece that demonstrates the dichotomy between Scandinavian acceptance of automation as a tool and the American worker's fear of being replaced by that very same robot.[11]

*"Although the foreign-born population increased from 2015 to 2016, it was the smallest increase year-over-year since 2010."*

In the long-term, however, as noted by the University of Pennsylvania Wharton School of Business in its report, "The Effects of Immigration on the United States Economy," it appears that "immigration leads to more innovation, a better educated workforce, greater occupational specialization, better matching of skills with jobs, and higher overall economic productivity," as well as having "a net positive effect on combined federal, state, and local budgets."[12] The report states: "Most empirical studies indicate long-term benefits for natives' employment and wages from immigration, although some studies suggest that these gains come at the cost of short-term losses from lower wages and higher unemployment."[13] Likewise, the Brookings Institute's paper indicates that while "expanding current deportations may reduce the expected drain on U.S. public coffers in later decades[,…t]he cost of these extra deportations […] includes reducing the supply of workers who are in their prime earning years, who have accumulated substantial U.S. labor-market experience, and who are well established in their communities."[14]

## Immigration in Numbers

By taking note of the generally accepted data about the American population, we can better discuss the impact of immigration policies on our relationships and the economy.

### The National Numbers

To look at the most current data about the American community as a whole, we turn to the U.S. Census Bureau's 2012-2016 American Community Survey (ACS) 5-Year Estimates—Selected Characteristics of the Native and Foreign-born Populations.[15] In it, we see that the total population in 2016 America is estimated to have been 318,558,162, of which 42,194,354 (13.2%) were foreign-born individuals, thus making up the "foreign-born population."[16,17] Although the foreign-born population increased from 2015 to 2016, it was the smallest increase year-over-year since 2010.[18] Looking a bit more closely, we see that of the foreign-born population, 19,979,407 (47.4%) were naturalized U.S. citizens, meaning that 22,214,947 (52.6%) individuals either did or did not hold a status that allowed him or her to work and/or stay in the U.S.[19]

Looking even more closely at the data, we notice that:

1. Foreign-born individuals are most likely to work in "management, business, science, and arts occupations," and are more likely than native-born individuals to work in "service occupations," "natural resources, construction, and maintenance occupations," and "production, transportation, and material moving occupations;"[20]
2. native-born individuals are more likely to work in "management, business, science, and arts occupations" and "sales and office occupations;"[21]
3. when we look at industries and compare participation rates among the native-born and foreign-born populations, a greater percentage of foreign-born individuals are involved with the "professional, scientific, and management, and administrative and waste management services" and "arts, entertainment, and recreation, and accommodation and food services;"[22] and
4. of the foreign-born population, non-U.S. citizens are more likely than their naturalized-U.S. citizen counterparts to serve in the "professional, scientific, and management, and administrative and waste management services," as well as the "arts, entertainment, and recreation, and accommodate and food services" industries.[23]

For instance, according to the 2012-2016 ACS 5-Year Estimate, of the foreign-born population, 12.9% and 12% worked in the "Professional, scientific, and management, and administrative and waste management services" and "Arts, entertainment, and recreation, and accommodation and food services" industries, respectively. This is in comparison to the native-born population, of which 10.8% and 9.2% work in the same respective industries. This demonstrates that 24.9% of the foreign-born community as a whole are more likely to enter the U.S. to pursue industries that relate to entertainment, arts, and sports, than those who were natively born.[24]

### The Local Numbers

Yet while the national numbers give us a good indication of the presence of foreign-born individuals in the entertainment, arts, and sports industries, it does not tell us where those individuals are working or in which particular disciplines they are working. A more nuanced perspective will allow us to focus on some of those local jurisdictions, and so we now turn to some of the key states and, where available and as applicable, cities or townships.

A look at the Occupational Employment Statistics (OES) published by the U.S. Department of Labor Bureau of Labor Statistics shows that in general, California, Florida, New York, and Texas employ the largest numbers of people who work in the entertainment, arts, and sports industries.[25] Of course, if we look at the more nuanced aspects, we see that when it comes to casinos, Nevada is at the top, whereas "Athletes and Sports Competitors" have the largest presence in Florida, followed by California, Pennsylvania, and New York, respectively.[26]

*"Many foreign-born individuals who entered the United States under an H-1B some years ago eventually sought permanent residence (a green card), but in some instances have had to wait more than a decade to be able to finalize their petitions and obtain permanent residence, all due to a processing backlog at USCIS."*

In 2016, the U.S. Department of State issued 532,922 non-immigrant visas for workers in E, H, I, J, O, P, and TN categories.[27] 5% of the non-immigrant visas issued by the State Department in 2016, this figure fails to take into account the number of petitions for those visas that were approved by the U.S. Citizenship and Immigration Services (USCIS). Unfortunately, USCIS does not publish those figures, and though a Freedom of Information Act (FOIA) request for this data was submitted, as of writing this article, a response was not yet received.

Still, what is apparent from cross referencing these data sets is that while immigration is not increasing by leaps and bounds, foreign-born individuals are still pivotal to many aspects of the entertainment, arts, and sports industries as we understand them.

## Immigration News that Closed Out 2017

### H-1B Extensions? Maybe Yes, Maybe No…

On December 30, 2017, McClatchy published an article titled, "DHS weighs major change to H-1B foreign tech worker visa program."[28] According to the article, the Department of Homeland Security (DHS) "is considering new regulations that would prevent H-1B visa extensions, [… which …] could stop hundreds of thousands of foreign workers from keeping their H-1B visas while their green card applications are pending."[29] This could have a tremendous impact on hundreds of thousands of individuals and a large amount of entities: Many foreign-born individuals who entered the United States under an H-1B some years ago eventually sought permanent residence (a green card), but in some instances have had to wait more than a decade to be able to finalize their petitions and obtain permanent residence, all due to a processing backlog at USCIS.[30] What makes this particularly troubling is that these individuals have already had both their jobs certified by the Department of Labor as not hindering the American workforce and their qualifications approved by USCIS. These H-1B holders have been regularly extending their H-1B visas while waiting for USCIS to call their numbers and take up their requests.[31]

To tell these individuals that they will no longer be allowed to wait in the U.S. and continue working would be to have them wait outside of a bakery on Thanksgiving morning, because, even though they arrived early enough, took their number, waited in line, and even decided to clean up the place a bit, it is simply too much for the baker to have them inside. It seems a bit strange, but 2017 was a strange year in many respects.

Whether this or anything overtly related to the H-1B program will happen in 2018 remains unclear, unfortunately, but be sure to watch this space. As we have discussed previously, and is frequently in the news, the H-1B program has been in the crosshairs of many politicians, and particularly the current administration. Take the last cycle of new H-1B petitions that were filed as of April 2, 2017: the period of review was marked by confused and curious requests for evidence (RFEs) by USCIS immigration officers that resulted in many denied petitions.[32] While not surprising, the brazenness was somewhat unexpected. Therefore, for anyone considering H-1B, it is important to be mindful of new difficulties that have and may come to pass.

### The Baseball Player with Immigration Issues: Extreme Vetting or Something Else?

Many athletes have had their share of immigration issues, but in the recent case of Jung Ho Kang, it is a bit more unclear: He has three Driving Under the Influences in his home of South Korea and received a suspended sentence.[33] In his piece for the *Pittsburgh Post-Gazette*, Bill Brink reports that "Kang applied for and received a P-1 work visa, the type reserved for elite athletes, in early 2015. The application for 2017 was denied."[34] It appears that his issues are with the Department of State, as his attorneys have argued that "the suspended prison term issued in march [is] a potential 'death sentence' to his career,"[35] and both the "Pirates general manager […] and president […] don't expect third baseman Jung Ho Kang to return to the club in 2018."[36]

Though Jung Ho's issues do not seem to be a result of the current administration's policies, because we are continuing to learn how "extreme vetting" and "Buy American, Hire American" are being implemented, we will continue to pay attention to Jung Ho and other matters. The majority of these are typically related to processing times and last-minute filings.[37]

### EB-5 Back in the Headlines, for Better or Worse

The EB-5 Immigrant Investor Program is one way for foreign-born individuals to obtain a green card by investing $500,000 or $1,000,000 into a U.S. entity that allows the U.S. entity to create or retain 10 jobs.[38]

In December, the *Los Angeles Times* reported that 60 individuals from China who each invested $545,000 in the SLS Las Vegas hotel and casino filed a lawsuit in Los Angeles County Superior Court alleging misfeasance at different levels of the process, much of which could be due to poor communication or a variety of misunderstandings.[39] However, the most concerning allegation is that "the SLS Hotel revenue was less than 50% of what was projected so the project had not created sufficient jobs to allow all investors, including some of the plaintiffs, to get green cards."[40] We take note of this matter because it serves as an important lesson to be mindful of potential difficulties when having international investors and addresses some of the nuances to be mindful of when structuring any sales or the like.

> *"Even though the figures demonstrate that there is not a reason to be fearful of or disdainful towards immigration, especially as it relates to the entertainment, arts, and sports industries, it does not appear that those sentiments are going away anytime soon."*

Again, in the EB-5 realm, the city of Adelanto in California announced in November that "$200 million in private financing from foreign investors has been secured to construct a massive entertainment hub here, a project that would ultimately become one of the largest inside the city and potentially the hallmark of its turnaround."[41] This could be significant for those interested in EB-5 funding for their projects or for other municipalities that could use revitalization.

What makes this project most interesting is its reliance on EB-5 funding—it is "entirely bankrolled through the EB-5 Immigrant Investor Program"[42]—and its application to completely rebuild a city. Likewise, another positive bit of news was reported by the *Brattleboro Reformer* of Vermont: "Peak Resorts, Mount Snow's Missouri-based parent company, announced Thursday that U.S. Citizenship and Immigration Services has OK'd creation of the 'Great North Regional Center' to manage EB-5-funded development at its northeastern resorts."[43]

### Worksite Enforcement in 2018? Time to Prepare

In October 2017, "Acting Immigration and Customs Enforcement (ICE) Director Tom Homan spoke at the conservative Heritage Foundation and was asked whether his agency would do more to target not just undocumented workers, but their places of work."[44] His answer was somewhat surprising: "He said he recently asked HSI to audit how much of their time is spent on work site enforcement, and said he has ordered that to increase 'by four to five times.'"[45] What this means for employers is that in 2018 they should make sure that their I-9 paperwork is in order and ready to be presented, in the event it is requested, to ICE agents.[46]

## Conclusion

Even though the figures demonstrate that there is not a reason to be fearful of or disdainful towards immigration, especially as it relates to the sports, entertainment, and arts industries, it does not appear that those sentiments are going away any time soon. We are already seeing that requests for evidence (RFEs), are the new normal for many artists, entertainers, athletes, and the like. Unfortunately, a significant majority of those RFEs are in many ways improper. As a result, we should prepare ourselves and our clients for potential changes in 2018, whether they be related to the processing of H-1B, or even O-1 or P-1, petitions by USCIS, applications for visas by the Department of State, increased oversight—or perhaps even a long-awaited overhaul—of the of the EB-5 program or workplace audits and enforcement.

## Endnotes

1. *Gompers Cries for Less Immigration*, The New York Times, December 8, 1905.
2. https://www.npr.org/2017/09/06/548882071/fact-check-are-daca-recipients-stealing-jobs-away-from-other-americans.
3. *Id*.
4. *Id*. (quoting https://www.cato.org/blog/economic-fiscal-impact-repealing-daca).
5. https://factfinder.census.gov/faces/tableservices/jsf/pages/productview.xhtml?pid=ACS_16_5YR_S0501&prodType=table.
6. https://www.brookings.edu/wp-content/uploads/2017/03/2_hansonetal.pdf.
7. *Id*.
8. https://www.techrepublic.com/article/50-of-low-skilled-jobs-will-be-replaced-by-ai-and-automation-report-claims/.
9. https://qz.com/1010831/the-middle-skill-job-is-disappearing-in-rich-countries/.
10. http://www.keepeek.com/Digital-Asset-Management/oecd/employment/oecd-employment-outlook-2017_empl_outlook-2017-en#.WkpfdN-nFhE#page1.
11. https://www.nytimes.com/2017/12/27/business/the-robots-are-coming-and-sweden-is-fine.html?_r=0;

    > Eighty percent of Swedes express positive views about robots and artificial intelligence, according to a survey this year by the European Commission. By contrast, a survey by the Pew Research Center found that 72 percent of Americans were "worried" about a future in which robots and computers substitute for humans.
    >
    > In the United States, where most people depend on employers for health insurance, losing a job can trigger a descent to catastrophic depths. It makes workers reluctant to leave jobs to forge potentially more lucrative careers. It makes unions inclined to protect jobs above all else.

> Yet in Sweden and the rest of Scandinavia, governments provide health care along with free education. They pay generous unemployment benefits, while employers finance extensive job training programs. Unions generally embrace automation as a competitive advantage that makes jobs more secure.

12. http://budgetmodel.wharton.upenn.edu/issues/2016/1/27/the-effects-of-immigration-on-the-united-states-economy.
13. *Id.*
14. Brookings, *supra* at endnote vi.
15. https://factfinder.census.gov/faces/tableservices/jsf/pages/productview.xhtml?pid=ACS_16_5YR_S0501&prodType=table.
16. *Id.*
17. It is worth pointing out that "[t]he U.S. Census Bureau uses the term foreign born to refer to anyone who is not a U.S. citizen at birth," which "includes naturalized U.S. citizens, lawful permanent residents (immigrants), temporary migrants (such as foreign students), humanitarian migrants (such as refugees and asylees), and unauthorized migrants." https://www.census.gov/topics/population/foreign-born/about.html#par_textimage.
18. https://factfinder.census.gov/faces/tableservices/jsf/pages/productview.xhtml?src=bkmk (U.S. Census Bureau, 2012-2016 American Community Survey 5-Year Estimates).
19. *Id.*
20. Taken from the 2016 American Community Survey 5-Year Estimate:
    - Management, business, science, and arts occupations—Native-born 38.3%, Foreign-born 30.7%;
    - Service occupations—Native-born 16.8%, Foreign-born 24.4%;
    - Sales and office occupations—Native-born 25.2%, Foreign-born 17.0%;
    - Natural resources, construction, and maintenance occupations—Native-born 8.1%, Foreign-born 12.8%; and
    - Production, transportation, and material moving occupations—Native-born 11.6%, Foreign-born 15.2%
21. *Id.*
22. *Id.*
    - Professional, scientific, and management, and administrative and waste management services—Native-born 10.8%, Foreign-born 12.9%; and
    - Arts, entertainment, and recreation, and accommodation and food services—Native-born 9.2%, Foreign-born 12.0%.
23. *Id.*
    - Professional, scientific, and management, and administrative and waste management services—Naturalized citizens 11.6%, Non-citizens 14.1%; and
    - Arts, entertainment, and recreation, and accommodation and food services—Naturalized citizens 8.8%, Non-citizens 14.9%.
24. Of course, this does not mean that there are more foreign-born individuals in these industries, but rather that when looking at populations as a whole employment in those industries is more prevalent among foreign-born individuals than their native-born counterparts.
25. https://www.bls.gov/oes/special.requests/oes_research_2016_sec_71-72.xlsx.
26. *Id.*
27. https://travel.state.gov/content/dam/visas/Statistics/Non-Immigrant-Statistics/NIVDetailTables/FY16%20NIV%20Detail%20Table.pdf.
28. http://www.mcclatchydc.com/news/politics-government/white-house/article192336839.html.
29. *Id.*
30. *Id.*
31. *Id.*
32. https://www.nytimes.com/2017/11/23/opinion/immigration-visa-h1b-trump-.html. A quick search online will bring up an array of articles commenting about the same issues; however, this first-hand account from a potential beneficiary whose petition was denied helps to see the possible impact of this transparent immigration wall and the confusion that can ensue as a result of poorly implemented, arguably official policies.
33. http://www.post-gazette.com/sports/pirates/2017/12/02/jung-ho-kang-visa-dui-conviction-south-korea-pirates-mlb-winter-meetings-2017/stories/201711300189.
34. *Id.*
35. https://www.usatoday.com/story/sports/mlb/2017/05/18/court-upholds-suspended-sentence-for-pirates-kang-over-dui/101820842/.
36. http://www.post-gazette.com/sports/pirates/2017/12/09/jung-ho-kang-dui-south-korea-update-pittsburgh-pirates-mlb-offseason-neal-huntington-frank-coonelly/stories/201712090108.
37. We note that most other immigration issues in the sports world seem related to simple processing times and planning: For example, Torrey Mitchell (forward for the Los Angeles Kings) was acquired by the Kings in late November, yet his visa was not secured until roughly two weeks later, http://beta.latimes.com/sports/ducks/la-sp-kings-report-20171202-story.html; a team of Indian boxers were unable to attend a training camp in the U.S. due to their inability to obtain the proper visas in time, causing "the trip […] to be cancelled" http://www.sportstarlive.com/boxing/visa-issues-force-cancellation-of-boxers-us-training-trip/article20943729.ece; and Fernando Salas (closer for the Mets) was unable to secure his work visa and report to 2017 spring training "because Salas signed his contract right before the report date for pitchers and catchers and did not have time to get the visa," http://www.nydailynews.com/sports/baseball/mets/mets-fernando-salas-play-spring-work-visa-issue-article-1.2986739.
38. https://www.uscis.gov/eb-5.
39. http://beta.latimes.com/business/la-fi-sls-investors-20171208-story.html, reporting that the lawsuit "alleges that the paperwork signed by the investors to participate in the visa program, known as EB-5, was in English and that most of the investors don't speak English. The suit says the investors were led to believe that they would get their permanent resident cards within 30 months but none has received a permanent resident card and only some now have temporary resident cards."
40. *Id.*
41. http://www.vvdailypress.com/news/20171122/in-potential-game-changer-adelanto-says-200m-secured-for-entertainment-epicenter.
42. *Id.*
43. http://www.reformer.com/stories/feds-ok-new-foreign-investment-center-for-mount-snow,524846.
44. http://www.cnn.com/2017/10/17/politics/ice-crackdown-workplaces/index.html.
45. *Id.*
46. http://www.mondaq.com/article.asp?article_id=646398&signup=true.

**Michael Cataliotti is the Principal of Cataliotti Law P.C., a law firm concentrating on business immigration and corporate transactions for individuals and entities from such industries as sports, music, fashion, film, television, art, and theatre. He is a faculty member at Lawline CLE, a frequent speaker on the topics of sports and entertainment immigration, entrepreneurship, and start-up transactions, an active member of the American Immigration Lawyers Association's (AILA's) New York Chapter, and an active supporter of immigration reform.**

# Resolution Alley
# Considering Arbitration or Mediation for Licensing Disputes

By Theodore K. Cheng

*Resolution Alley is a column about the use of alternative dispute resolution in the entertainment, arts, sports, and other related industries.*

It is commonplace in the entertainment, arts, and sports industries for parties to enter into licensing arrangements for any variety of different business reasons. Unfortunately, despite good intentions and much optimism when those deals are consummated, disputes over those agreements are themselves also a common occurrence. For example, a photographer may decide to license his or her catalog for use in connection with a theater production, but keeping track of which photographs are being used by the producers immediately becomes a challenge, leading to uncertainty over the appropriate amount of royalties that are due. A merchandising firm specializing in bobbleheads and other likenesses of celebrities may approach a popular National Football League team to discuss the potential of making figurines of star players in football uniforms, but the end products bear little resemblance to the actual players, and the reproduced team trademarks do not comply with the specifications provided by the league.

*"Individuals who can direct their emotional capital toward what they enjoy doing are the ones who contribute the most to the business objectives and, consequently, to overall success."*

It would not be surprising to turn to commencing a traditional federal or state court action as an almost knee-jerk reaction to solving these kinds of licensing problems. However, in resorting to litigation, how often do we think about the additional transaction costs that are incurred in choosing this particular way to resolve the dispute? For example, it goes without saying that it costs money to resolve disputes. Yet it is also important to remember that the true costs can be both direct and indirect. Direct costs could encompass e-discovery and document production costs, deposition expenses, expert witness fees, and, of course, legal fees. Indirect costs could include negative publicity, reputational harm, loss of employee productivity, and lost business opportunities because resources are being directed towards resolving the dispute. Moreover, the longer it takes to achieve a resolution, the greater the likelihood that all of these costs will have an adverse impact on future growth and profitability. Further, as the dispute wears on, both the licensor and licensee derive increasingly fewer benefits from their underlying agreement.

**Theodore K. Cheng**

In that regard, disputes also unavoidably take up time, and, as Benjamin Franklin once noted, "Time is money." Worse yet, disputes spend time on one's behalf. Three-time Pulitzer Prize-winning American poet, writer, and editor Carl Sandburg once said that, "Time is the coin of your life. It is the only coin you have, and only you can determine how it will be spent. Be careful lest you let others spend it for you." Every metric of time diverted to handling a dispute is not being devoted to furthering the core business interests of either the licensor or licensee. Disputes also hold the parties hostage to a particular moment or moments in time. Most poignantly, the point in time when the dispute arose becomes the focus and remains so until the dispute is resolved.

Money and time are the most obvious transaction costs, although the loss of emotional capital can be equally, if not more, debilitating. David Packard, the late co-founder of Hewlett-Packard, said: "A group of people get together and exist as an institution we call a company so they are able to accomplish something collectively that they could not accomplish separately—they make a contribution to society, a phrase which sounds trite but is fundamental." A business is nothing but the passion, dedication, and commitment of its people, and, as Jack Welch, former CEO of GE, said, "It goes without saying that no company, small or large, can win over the long run without energized employees who believe in the mission and understand how to achieve it." Individuals who can direct their emotional capital toward what they enjoy doing are the ones who contribute the most to the business objectives and, consequently, to overall success. At the same time, individuals who are compelled to invest emotionally in issues having little or nothing to do with the business objectives—such as an unresolved dispute—are likely to find themselves impeded in their ability to participate meaningfully and, thus, feel disheartened, discouraged, and demoralized. Devoting energies towards resolving disputes requires an expenditure of emotional capital that will almost always take a negative toll.

Finally, putting faith in the courts to achieve a resolution means ceding ultimate control over the outcome to someone other than the parties to the dispute, namely, the judge and/or the jury. Influential management consultant Peter Drucker once said, "Management is doing things right; leadership is doing the right things." Steering a business in line with its mission, growing profitability, respecting and responding to its customers, and safeguarding its reputation are all responsibilities over which management must exercise proper control. Disputes, however, hold the potential to diminish management's ability to control one or more of these areas. In a court proceeding, both licensors and licensees have little to no control over the outcome, creating the potential for results that could adversely impact each of their respective businesses.

*"The parties could also consider setting aside extended time for* ex parte *communications with the mediator in order to help crystallize their positions and bring the parties closer to a resolution, placing restrictions on motion practice; and agreeing to limit the number of expert witnesses or even agreeing to retain joint expert witnesses."*

Considered together, these transaction costs point to one inescapable conclusion: The more we rely on court litigation to achieve our dispute resolution goals, the more money, time, and emotional capital we expend to secure an outcome over which we have less control. Litigation is an appropriate dispute resolution mechanism in certain circumstances, but it has many serious limitations, including the inability to accommodate a customized process for the dispute in question; appearing before a decision maker who more than likely has little to no expertise in the subject matter of the dispute, and the inability to maintain true confidentiality because of the public nature of the proceedings.

Licensing disputes have long been resolved competently, cost-effectively, and expeditiously by arbitrators and mediators who either work wholly outside of the court systems or in court-annexed programs designed to offer litigants an alternative to slavishly following court procedural rules. These processes afford the parties a great degree of flexibility, because at their core they are processes that the parties contractually agreed to undertake utilizing parameters determined, for the most part, by the parties themselves. Even after a dispute arises, the better practice by arbitrators and mediators is to engage the parties and their counsel to continue tailoring the process to fit the dispute in question, assisting the parties to design a process that makes sense to them and their business priorities. One design option to consider is placing reasonable limitations on the scope of information exchange so as to avoid the broad and nearly unfettered discovery found in court litigation. For example, the parties could agree to informally exchange information in advance of a mediation session, eliminate depositions, severely restrict the use of interrogatories, or exchange witness statements in advance of the hearing in lieu of conducting direct examinations.

*"As a drafting matter, the parties can require in their licensing agreement that the neutral has specific subject matter and/or industry expertise."*

The parties could also consider setting aside extended time for *ex parte* communications with the mediator in order to help crystallize their positions and bring the parties closer to a resolution, placing restrictions on motion practice, and agreeing to limit the number of expert witnesses or even agreeing to retain joint expert witnesses.

Licensing disputes are essentially breach of contract actions, and, depending on the context, they may call for having a facilitator or decision maker who possesses sufficient subject matter knowledge and/or expertise to understand the true parameters of the dispute. That knowledge or expertise could be focused on the industry in which the licensing arrangement was consummated. It could also include substantive knowledge of the legal framework applicable to such arrangements. Unlike in a court proceeding, the parties can choose a neutral based upon relevant criteria, such as copyright or trademark expertise, prior experience in or with the industry, reputation, temperament, prior arbitration or mediation experience, availability, and a host of other factors. Thus, selecting the appropriate mediator or arbitrator can often maximize the likelihood that a resolution can be achieved, in that that selection may be critical to being able to work with a neutral who can appreciate both the legal issues and the technical industry concepts involved.[1]

As a drafting matter, the parties can require in their licensing agreement that the neutral has specific subject matter and/or industry expertise. One place to look for potentially eligible neutrals is the Silicon Valley Arbitration and Mediation Center,[2] which annually promulgates its "List of the World's Leading Technology Neutrals."[3] This free and publicly available list "is peer-vetted and limited to exceptionally qualified arbitrators and mediators known globally for their experience and skill in crafting business-practical legal solutions in the technology sector." It is an excellent resource for at least identifying arbitrators and mediators who have significant experience in intellectual property and technology disputes, many of whom also have prior substantive experience in the entertainment, arts, and sports industries.

*"Choosing to use arbitration and/or mediation as alternatives to court litigation in the parties' licensing agreement is something that should be seriously considered."*

Although arbitration and mediation both involve engaging the services of a neutral third-party akin to a judge, unlike a court proceeding, both are also confidential processes. The neutral and any provider organization administering the proceedings are obligated to maintain the confidentiality of the proceedings and may not disclose any of the particulars to the general public. The parties themselves can also agree to maintain confidentiality over any arbitration or mediation proceeding. However, absent governing law, court rule, or the parties' agreement, neither process is inherently confidential, and there are limitations on maintaining confidentiality.[4] Notwithstanding those limitations, the ability to maintain confidentiality in both arbitration and mediation proceedings is a significant distinguishing factor in selecting that dispute resolution mechanism. Thus, for example, avoiding the potential for unwanted publicity associated with filing a lawsuit—particularly one involving prominent celebrities or well-known corporations—can be agreed to in the licensing agreement itself before any dispute has arisen.

Moreover, because licensing arrangements, in many instances, contemplate an ongoing relationship of some kind once the dispute has been resolved, the confidentiality afforded by both arbitration and mediation can perhaps be modestly helpful in preserving that relationship.

Finally, when disputes arise in an international or cross-border context, being able to have an arbitration award recognized and enforced in most countries in the world through the operation of the Convention on the Recognition and Enforcement of Foreign Arbitral Awards (also known as the New York Convention) is a distinct advantage over pursuing litigation in any particular country's local courts.[5]

## Conclusion

Choosing to use arbitration and/or mediation as alternatives to court litigation in the parties' licensing agreement is something that should be seriously considered. These processes have the potential to address many underlying concerns when a dispute arises, such as designing and tailoring the dispute resolution mechanism to better fit the dispute in question, ensuring that the neutral third-party who will be either be adjudicating the dispute or assisting the parties in facilitating a negotiated resolution has the appropriate level of knowledge and expertise with the subject matter of the dispute and/or the industry, and maintaining confidentiality over the proceedings. The two processes can even be combined in what is known as a "step" or "tiered" dispute resolution clause, which would typically require the parties to attempt good faith negotiations by themselves as a first step, followed by the initiation of a formal mediation proceeding if the parties need the assistance of a neutral, and then finally, the commencement of an arbitration proceeding only after the mediation has failed to achieve a facilitated resolution. In that way, the parties' shared interest in resolving the dispute cost-effectively and expeditiously can be better realized.

## Endnotes

1. *See, e.g.*, Douglas Shontz, Fred Kipperman, and Vanessa Soma, "Business-to-Business Arbitration in the United States: Perceptions of Corporate Counsel," Rand Institute for Civil Justice, at 1-2, 32 (2011) (finding that a majority of respondents in a study reported that arbitrators are more likely to understand the subject matter of the arbitration than judges because they can be selected by the parties), *available at* www.rand.org/content/dam/rand/pubs/technical_reports/2011/RAND_TR781.pdf.
2. *See* https://www.svamc.org.
3. *See* https://svamc.org/techlist.
4. *See* Theodore K. Cheng, *Maintaining Confidentiality in Arbitration*, NYSBA Entertainment, Arts and Sports L. J., Vol. 28, No. 2, at 25-26 (2017) (discussing parameters of confidentiality in arbitration proceedings, including some of the limitations).
5. *See* Theodore K. Cheng, *Arbitration of Art and Cultural Heritage Disputes*" NYSBA Entertainment, Arts and Sports L. J., Vol. 28, No. 3, at 32 (2017) (discussing the advantages of the New York Convention).

**Theodore K. Cheng is an independent arbitrator and mediator, focusing on commercial, intellectual property, technology, entertainment, and labor/employment disputes. He has been appointed to the rosters of the American Arbitration Association (AAA), the CPR Institute, FINRA, Resolute Systems, the Silicon Valley Arbitration & Mediation Center's List of the World's Leading Technology Neutrals, and several federal and state courts. Mr. Cheng also has over 20 years of experience as an intellectual property and commercial litigator. More information is available at www.linkedin.com/in/theocheng, and he can be reached at tcheng@theocheng.com.**

# Essential Clauses for Drafting an Ironclad Release and Consent Agreement

By Neville L. Johnson and Douglas L. Johnson

Release and consent agreements are frequently used by producers in the film and television business to obtain consent to film and record participants, to commercialize the participants' contributions, and to prevent litigation. Producers often rely on free release forms available for download online, but how can they be sure that these online forms provide sufficient protection, especially in the areas of reality television or documentary type films, where participants may be portrayed in an unanticipated manner and resort to litigation as a remedy? To assure proper protection, producers and their attorneys should include the following six clauses in their release and consent agreements: (1) preamble; (2) consent; (3) assignment; (4) waiver; (5) jurisdiction; and (6) irrevocability. Furthermore, producers should keep the release short and simple, and allow participants adequate time for review.

### Clause 1: Preamble

Preambles generally identify the type of agreement, the date the agreement is signed, and the parties to the agreement. In a release, the preamble should include an acknowledgement regarding consideration and state that the participant is receiving either a fixed sum or an opportunity to appear in the producer's project in exchange for agreeing to the terms of the release. This makes clear to the participant that an agreement is being formed and that consideration is exchanged.

**Neville L. Johnson**

**Douglas L. Johnson**

### Clause 2: Consent

The release should also contain a consent clause, which makes clear that the participant agrees to be filmed and recorded. This clause should also include a broad description of the project to be filmed. The following is an example of a broad description that was used in the famous release agreement for Sacha Baron Cohen's film, *Borat: Cultural Learnings of America for Make Benefit Glorious Nation of Kazakhstan* (hereinafter *Borat*): "participant agrees to be filmed and audio taped by producer for a documentary-style film." Using a broad description such as "documentary-style film" prevents the participant from later claiming that he or she was not aware of the type of project in which he or she would appear. Simultaneously, a broad description also prevents the producer from having to commit to a specific genre or category.

### Clause 3: Assignment

One of the most crucial clauses in a release agreement is the assignment of rights. This clause grants the producer the right to use a participant's image, name, likeness, and any other rights needed to include the participant in the project, and also grants the producer ownership rights over all of the participant's contributions. These granted rights serve two primary functions: (1) They prevent the participant from claiming that the producer misappropriated, infringed, or violated the participant's rights of publicity or privacy; and (2) they prevent the participant from claiming an ownership interest or profit participation rights in the project. Therefore, the assignment clause must broadly assign all of the participant's rights in the project to the producer and make clear that the participant owns nothing. Drafters should be especially careful when preparing this clause, and should ensure that the assignment covers all intellectual property rights as well as all publicity rights, and mentions all of the possible types of uses, including commercial use, advertisement, and promotion. Moreover, the assignment clause should also grant the producer any rights, including derivative, ancillary, and product rights.

### Clause 4: Waiver

A waiver of claims clause should also be included in the release to prevent the participant from later suing the producer for claims arising from the participant's involvement. In addition to including a general waiver covering all possible claims, the producer probably should list every claim that could be anticipated, including: (1) rights of publicity infringement or misappropriation, (2) copyright and trademark infringement, (3) invasion of privacy, (4) misappropriation of idea or concept, (5) defamation, libel, or slander, and (6) fraud. Having the participant waive all anticipated claims will require the participant to have the release rescinded by the court in order to bring any of the listed causes of actions, which would be quite challenging for a litigant to do.

When it comes to reality shows, we have seen many agreements that purport to waive intentional torts. These clauses will not survive, as they violate the principle that one cannot have a contract the purpose of which is to exempt one from his or her own fraud or willful injury to the person or property of another.[1]

Likewise, we saw one of the *Borat* releases at the time of controversy, which contained a clause that said essentially: "You cannot sue us for fraud even if we are deceiving you as you sign this agreement." We don't think any court would uphold such a clause.

### Clause 5: Irrevocability

An irrevocability clause further limits the producer's liability by stating that the agreement is irrevocable, thereby preventing the participant from arguing that the agreement was previously terminated. This clause once again requires the participant to have the court rescind the agreement before bringing any claims that fall outside of the four corners of the agreement.

### Clause 6: Jurisdiction

The release should also include a jurisdiction clause, which specifies the state law governing the agreement and any arising disputes, as well as a specific forum for bringing claims if a claim is brought. Before selecting a jurisdiction, the producer should consider both the practical and legal consequences of selecting the governing law and forum. From a practical standpoint, the producer should select a convenient litigation forum, such as the state and county where he or she resides. From a legal standpoint, the producer should also consider selecting a state with favorable laws in the event he or she is sued for claims anticipated. For example, many releases include a New York choice of law clause, because New York does not recognize either a common law right of privacy or a common law right of publicity, making it especially difficult for a participant to sue a producer for such claims in New York. Some releases provide that any dispute be sent to arbitration, and the prevailing party be entitled to attorneys fees.

### The *Borat* Cases

The *Borat* cases are perhaps the most notorious cases involving release and consent agreements. In *Borat*, a fictional journalist from Kazakhstan interacted with individuals along his trip across America. These individuals claimed that they were informed that they were being filmed for a documentary on American culture, which was going to be shown in Kazakhstan or Belarus.

However, the worldwide release of the film triggered the filing of several lawsuits by the participants in the film against the producers and distributors. The individuals alleged that they had been deceived and had consented to being filmed for something different than what was actually released. Some of these cases were dismissed on motion by the court.[2] Some were, however, dismissed by the plaintiff, which infers that a settlement was reached.[3]

### Keep It Short and Simple

In addition to including the abovementioned clauses, it is important to keep the release short and easy to understand, so that the participant cannot later argue that a layperson could not have reasonably understood what was written. Keeping the agreement short and simple would convince a judge that a reasonable reader could have easily understood what he or she was signing. It is recommended to keep the release one page long and avoid the use of legalese. If the participant is provided with a lengthy document containing complex and ambiguous language, the court may find that a layperson cannot reasonably be expected to fully comprehend the release, and allow the release's complexity to be used as a factor in favor of the participant's claim.

We recently approved this very short release, so as not to alarm the person signing the agreement and possibly necessitating the hiring of counsel, which could cause additional delay and expense:

Talent Release Form

I, ______________________________ (person giving the release), am aware that Talent is a social media influencer and talent with broad reach on social media and other public and private media platforms. I hereby assign and grant Company and its affiliates the right and permission to use and publish photographs/film/videos/electronic representations and/or sound recordings of me; my name, voice and likeness in perpetuity and I hereby release Talent and his/her affiliates from any and all liability from such use and publication via any media known or unknown today without my prior approval in any way. I hereby authorize the reproduction, sale, copyright, exhibit, broadcast, electronic storage and/or distribution of said photographs/film/videos/electronic representations and/or sound recordings without limitation at the discretion of Talent and his/her and her affiliates and I specifically waive any right to any compensation I may have, in any form, for any of the foregoing now and in perpetuity.

Name: ______________________________________

Signed: _____________________________________

Guardian: ___________________________________
(If under the age of 18)

Printed name:

____________________________________________

Relationship to minor: _______________________[4]

### Get Proper Consent

Ensuring that any participant has sufficient time to review and sign any release is important. Reality show releases usually are many multiple pages with dense contractual provisions and so complex that an attorney should be consulted. Thrusting a waiver in front of a participant in a production without adequate time to review the document is questionable, and may lead to a successful argument that consent was insufficiently given.[5]

### Endnotes

1. *See* California Civil Code Section 1668; N.Y. U.C.C. Section 2-302; *Kalisch-Jarcho, Inc. v. City of New York*, 58 N.Y.2d 377, 384-85 ("…[A]n exculpatory agreement, no matter how flat and unqualified its terms, will not exonerate a party from liability under all circumstances. Under announced public policy, it will not apply to exemption of willful or grossly negligent acts…."); *Dieu v. McGraw*, No. B223117, 2011 WL 38031 (Cal. Ct. App. Jan. 6, 2011).
2. Cases in which the Judge granted a motion to dismiss include *John Doe v. One America Productions*, Case No. SC 091723 (LASC) (Nov. 9, 2006), *Lemerond v. Twentieth Century Fox Film Corp.*, 2008 U.S. Dist. LEXIS 26947 (S.D.N.Y. Mar. 31, 2008), *Martin v. Mazer*, No. 08-CV-01828 (S.D.N.Y. Feb 22, 2008), *Psenicska v. 20th Century Fox*, No. 07-CV-10972 (S.D.N.Y. Dec. 3, 2007), *Streit v. 20th Century Fox*, 08-CV-01571 (S.D.N.Y Feb. 15, 2008).
3. Cases in which the plaintiff dismissed the case include *Cedeno v. 20th Century Fox*, No. 07-CV-07251 (S.D.N.Y. Aug. 14, 2007), *Johnston v. One America Productions*, No. 07-CV-00042 (N.D. Miss. Mar. 20, 2007), *Todorache v. 20th Century Fox Film Corp.*, No. 06-CV-13369 (S.D.N.Y. Nov. 20, 2006).
4. California Civil Code Section 3344 provides that parents can sign on behalf of their minor children with regard to the right of publicity; otherwise the contract requires court approval. Cal. Civ. Code § 3344(a) ("…Any person who knowingly uses another's name, voice, signature, photograph, or likeness, in any manner, on or in products, merchandise, or goods, or for purposes of advertising or selling, or soliciting purchases of, products, merchandise, goods or services, without such person's prior consent, or, in the case of a minor, the prior consent of his parent or legal guardian, shall be liable for any damages sustained by the person or persons injured as a result thereof…."); *see also Faloona by Fredrickson v. Hustler Magazine, Inc.*, 799 F.2d 1000 (5th Cir. 1986).
5. *Doe v. Gangland Productions Inc*. is instructive. 730 F.3d 946 (9th Cir. 2013).

**Neville L. Johnson and Douglas L. Johnson are entertainment attorneys at Johnson & Johnson LLP in Beverly Hills, CA. Visit them at www.jjllplaw.com.**

NEW YORK STATE BAR ASSOCIATION

☐ I am a Section member — please consider me for appointment to committees marked.

Name ____________________________________________

Address __________________________________________

_________________________________________________

City ________________ State _____ Zip ________________

The above address is my ☐ Home ☐ Office ☐ Both

Please supply us with an additional address.

Name ____________________________________________

Address __________________________________________

City ____________________ State _____ Zip ____________

Office phone ( _______) ____________________________

Home phone ( _______) ____________________________

Fax number ( _______) ____________________________

E-mail address _____________________________________

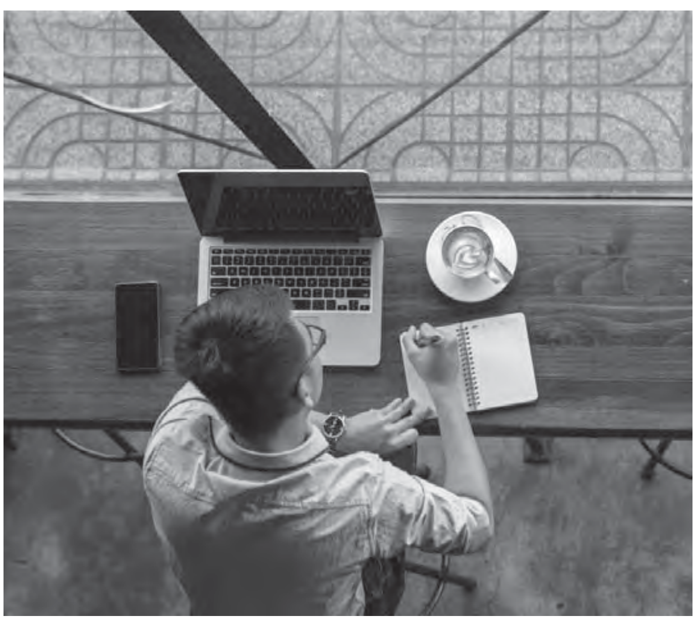
Date of birth _______ /_______ /_______

Law school ________________________________________

Graduation date _____________

States and dates of admission to Bar: ____________________

*Please return this application to:*
**MEMBER RESOURCE CENTER,**
New York State Bar Association, One Elk Street, Albany NY 12207
Phone 800.582.2452/518.463.3200 • FAX 518.463.5993
E-mail mrc@nysba.org • www.nysba.org



# JOIN A COMMITTEE

## Knowledge Enhancement via Committee Involvement

The **EASL Section's** committees address unique issues facing attorneys, the profession and the public. Committees allow you to network with other attorneys who practice in the entertainment, arts, and sports areas of the law. Committee membership gives you the opportunity to research issues and influence the laws that can affect your practice. Committees are also an outstanding way for you to achieve professional recognition and development.

The Section offers opportunities to serve on many committees.

## Entertainment, Arts & Sports Law Section Committees

Please designate the committees in which you are interested. You are assured of at least one committee appointment, however, all appointments are made as space permits.

__ Alternative Dispute Resolution (EASL3100)
__ Copyright and Trademark (EASL1300)
__ Digital Media (EASL3300)
__ Diversity (EASL3800)
__ Ethics (EASL3600)
__ Fashion Law (EASL3200)
__ Fine Arts (EASL1400)
__ International (EASL3900)
__ Law Student Liaisons (EASL4200)
__ Legislation (EASL1030)
__ Literary Works and Related Rights (EASL1500)
__ Litigation (EASL2500)
__ Motion Pictures (EASL1600)
__ Music and Recording Industry (EASL1700)
__ Not-for-Profit (EASL4100)
__ Phil Cowan Memorial Scholarship (EASL3500)
__ Pro Bono Steering (EASL3000)
__ Publications (EASL2000)
__ Publicity, Privacy and the Media (EASL1200)
__ Sports (EASL1800)
__ Television and Radio (EASL1100)
__ Theatre and Performing Arts (EASL2200)
__ Website (EASL4000)
__ Young Entertainment Lawyers (EASL2300)

NYSBA

# Theft or Transformation? Let Hip-Hop Breathe—Sampling as Fair Use

By Caroline Barry

***Law Student Initiative Award Winning Article***

*"The nuances, the way you chop it up—and people's appreciation for it—is an amazing art form and a culture…Hip-hop is just as important as Basquiat and Warhol."*[1]

Despite its rapid technological advancement, its modern indispensability in the music industry, and its genre transcendence,[2] digital sampling has remained largely chained by early case law that misconceived its usefulness as a transformative artistic tool, as well as by the overbearing clearance culture that developed in the wake of these court rulings.[3] Unlike its present universality, sampling began as a musical phenomenon originated by and principally unique to the hip-hop culture and genre.[4] Unfortunately for artists today, this misunderstood history laid the foundation for strict, harsh, and haphazard case law that left the art of sampling in music in legal limbo.[5]

Case law addressing the legal bounds of sampling is sparse and dated, and the most seminal cases, mostly dealing with hip-hop sampling of prior art, use language depicting sampling in hip-hop as thievery,[6] criminal,[7] brazen illegality,[8] and so on. Currently, the industry operates under the mantra of "[g]et a license or do not sample,"[9] which effectively deters sampling-based hip-hop song creation at large, alters some artists' entire artistic styles, financially inhibits artists' abilities to create transformative art using prior sound recordings, and gives artists impermissibly large monopolies over their own music, which has continued to block transformative art from public release for decades.[10]

Sampling can be defined as using pieces of an existing sound recording in a new recording,[11] for a new "transformative use,"[12] or as the process of using a segment of another artist's sound recording "as part of a new work."[13] Sampling can involve as little as one to two notes or seconds of an original sound recording, and then involve subsequent re-contextualization, alteration, and re-formulization "in pitch, tone, and speed until [the samples] are virtually unrecognizable, and then are woven into the fabric of the new song."[14] One might object to sampling as taking another artist's "life's work" without permission, and then incorporating it into another's work. [15] However, this is an overly simplistic view of sampling, which overall can be used to reimagine, reinterpret, enmesh, interweave, and re-contextualize prior art into a new, transformative, entirely unique work—just as is done in appropriation art or visual collage art.

Using prior art to incorporate it into a new, original work is not new or uncommon in the vast world of creative arts. To be sure, the concept of sampling involves some level of appropriating or taking from others' prior art. However, in copyright law, there is a legal carve out for such unauthorized takings that create new, transformative art under the fair use doctrine, codified in § 107 of the Copyright Act, which in practice operates as an arguable defense to copyright infringement.[16] What case law has detrimentally failed to recognize in the realm of sampling is that, just as appropriation or collage art in print, paint, or photography always has the availability and breathing room of the fair use carve-out, so too should the art of sampling in music.

**Caroline Barry**

This article explores how the artistic method of sampling, specifically as developed and used in hip-hop, theoretically could and practically should be analyzed under the fair use doctrine. It frames sampling in hip-hop songs not through the lens of theft, but rather as a tool, style, or method employed to create new and original pieces of transformative art, analogous to collage or appropriation art; this framing allows sampling in hip-hop to employ the fair use defense, thus, analogously as well. Part I provides a brief overview of seminal case law regarding sampling, and notes the misconceptions of sampling involved in the case law's developments. Part II assesses how the case law development had detrimental effects on the art of sampling and allowed a problematic, overbearing clearance culture to fester and currently prevent otherwise fair uses. Part III argues and proposes that the fair use defense could and should apply in the sampling context.

## Part I: Courts Misconceive Sampling and Rap Music

### A. Thou Shalt Not Steal!

The case that originally set the somber tone for the fate of sampling under copyright law[17] was *Grand Upright Music Ltd. v. Warner Bros. Records*, in which Judge Kevin Duffy began his opinion with the pronouncement: "Thou shalt not steal,"[18] and concluded by referring the case "to the United States Attorney for the Southern District of New York for consideration of prosecution of these defendants under 17 U.S.C. § 506(a)" for willful copyright infringement.[19] In the case, hip-hop artist Biz Markie made a song called "Alone Again," which was his own parodic version and recording of Gilbert O'Sullivan's song "Alone Again (Naturally)," using the three titular words of the original and sampling the original recording in his own version.[20] Biz Markie had attempted to gain copyright clearance for the sample, but O'Sullivan purportedly did not want a "rap version" of his song, and sued Markie instead.[21]

*"Overall, the sampling case law developed in a way that robs the public of music that samples prior art in transformative ways, except where artists can afford to pay the price for the samples or convince rights holders for a license."*

*Grand Upright* was decided in 1991, when sampling was still in relative artistic infancy and development, and hip-hop itself was beginning to develop into a commercially viable genre.[22] Before the decision, hip-hop artists long used to the collage-style and incorporative culture of rap music had been under the assumption that sampling prior art was fair use, as they were using prior art to make new, different art—not pass it off as their own solely for commercial gain. Biz Markie's court argument was simply his honest truth—that sampling prior art was standard practice, if not an essential part and method of creating hip-hop music.[23] To Judge Duffy, the argument "that stealing is rampant in the music business and, for that reason," sampling should be permitted, violated both U.S. copyright laws and "the Seventh Commandment."[24] Judge Duffy also noted that Markie's "only aim was to sell thousands upon thousands of records," and called it a "callous disregard for the law."[25]

However, what Judge Duffy called stealing and rampant in rap music was in reality just the misunderstood, nuanced, unexamined, long-used-in-rap-music, artistic method of sampling; and Markie's supposed aim to sell thousands of records may indeed have been true, but for his own collage-like, parodic, hip-hop song, and not to steal or sell to O'Sullivan's soft rock audience of the original song.[26] Under the lens of an updated fair use analysis, as described *infra* in Part III, Markie's sampling, though an unauthorized taking of a prior copyrighted sound recording, could arguably have been protected and legally permissible under the fair use defense as a transformative, new, original song. Instead, his entire album was recalled from sale.[27]

### B. Get a License or Do Not Sample!

In 2005, *Bridgeport Music, Inc. v. Dimension Films* continued the theme language of strict copyright enforcement against the impermissibly theft-like art of sampling, often used in rap music, by declaring: "Get a license or do not sample,"[28] which is an echo still reverberating through and governing music industry operations today. In *Bridgeport*, the rap group N.W.A., in its song "100 Miles and Runnin'," sampled from the Funkadelic's sound recording "Get Off Your Ass and Jam."[29] Specifically, N.W.A. used a "three-note, two-second sample…[that] was lowered in pitch, looped, and extended to sixteen beats," and altered throughout the song.[30] The Sixth Circuit held that the concept of a permissible *de minimis* use was "categorically unavailable" in the digital sampling context.[31] The Sixth Circuit also noted that "sampling is never accidental," and that when one samples, one "knows" he or she is "taking another's work product."[32] Precisely so, but what the Sixth Circuit failed to assess is whether such an appropriative taking has resultantly created a new, transformative, permissible, and thus protected fair use.[33]

In *VMG Salsoul v. Ciccone*, the Ninth Circuit created a circuit split with the Sixth Circuit by rejecting *Bridgeport's* "bright-line rule" that "[f]or copyrighted sound recordings, any unauthorized copying—no matter how trivial—constitutes infringement,"[34] and concluded that Congress "intended to maintain the 'de minimis' exception for copyrights to sound recordings."[35] The court held that a "general audience would not recognize the brief [0.23 second long and altered] snippet" in Madonna's song "Vogue" as originating from the allegedly infringed sound recording of the song "Love Break," and that the de minimis use exception applies in the sampling and sound recording context, "just as it applies to all other copyright infringement actions."[36] Still, law around sampling remains unclear in a practical sense to artists in the wake of the Circuit split.

Therefore, combining *Grand Upright*[37] and the *Bridgeport* and *VMG Salsoul* Circuit split between the Sixth and Ninth Circuits on the de minimis use exception for sampling prior sound recordings in new, original songs, the broader concept of a viable fair use option remains largely unassessed and untested in the courts. Consequently, sample-based hip-hop has suffered as an art form, and sound recording owners have dangerously broad monopoly power and negotiating leverage over their works, should other artists want to sample their sound recordings (regardless of how transformative the subsequent artist's use might be) not necessarily having needed any license or permission at all under a proper fair use analysis.[38] Overall, the sampling case law developed in a way that robs the public of music that samples prior art in transformative ways, except where artists can afford to pay the price for the samples or convince rights holders for a license.[39]

## Part II: The Detrimental Effects

Case law discouraged hip-hop artists and labels from daring to employ the art and craft of sampling to create transformative new works.[40] Historically, therefore, in the sampling context, hip-hop has been targeted and stifled artistically,[41] prevented from expanding freely, evolving, or moving culture and music forward in ways it should have been allowed to all along.[42] The case law is problematic for three main reasons: It created an overactive clearance and licensing culture that can render sampling a commodity for the elite and place exorbitant power in the hands of rights holders to block transformative art at whim; it wholesale changed or halted entire styles of some hip-hop artists, and it failed and disempowered sampling by not understanding it as a valid and necessary cultural feature and artistic tool of hip-hop music.[43]

Financially, artists are often greatly limited by sampling pricing schemes, other artists' licensing fee whims, lawyers negotiating the value of a potential sample, and even having to ration out which and how many samples one may be able to afford.[44] Under a fair use analysis, it would be free to sample whomever and however many sound recordings an artist wanted to, so long as the appropriations were sufficiently transformative and re-contextualized permissibly under the fair use doctrine—yet this is protection that case law has not yet afforded or applied to sampling in a meaningful way, especially in hip-hop music. For instance, now, artists sampling "numerous fragments of copyrighted material to create a truly innovative" and transformative new sound recordings "may not be able to afford the numerous licensing fees the artists would be subject to; thus stifling creativity."[45] The current phenomenon is that only the wealthiest and most elite artists, already commercially successful, can afford to create truly sample-diverse and artistically and creatively free songs.[46] Yet even prominent artists like Kanye West or Jay-Z can fall prey to fluctuating sample costs, arbitrary timing of clearances, or last minute decisions not to clear that wound or stall entire projects.[47]

*"Therefore, unless fair use is available in the sampling context, artists will remain prey to rights holders, forgo sampling and creating art in the hip-hop genre, and its cultural tradition will fade."*

Beyond cost limitations, music producers and creators have suffered artistically as well. For example, the rap group Public Enemy was known for heavy but re-interpretive sampling—using "sounds of the past," to "create[] whole new works of musical collage."[48] In fact, Public Enemy's creative process has been described as "a songcraft from chipped flecks of near forgotten soul gold."[49] As a result of the restrictive case law and resulting arbitrary licensing schemes for sample clearances, "Public Enemy suffered artistically as their style of simultaneously sampling a multitude of different sound recordings" drastically affected its creation costs, and thus its later records incorporated fewer samples and its art was forever changed.[50] The legal purgatory sampling has been left in by the case law may impermissibly limit artistic creation and freedom.[51]

Lastly, sampling is integral to hip-hop; not as a mode of theft, but as a cultural style and community art form that deserves recognition, acknowledgement, and fair treatment under copyright law.[52] The advent of digital technology only has served to build upon, streamline, and creatively blossom the historic phenomenon of turntable "cutting" and "mixing."[53] Originally, Jamaican disc jockeys in the 1960s developed sampling by creating unique sounds and songs "by using reverb and echo or by filtering bass tracks and vocal tracks in and out to alter parts of an original recording"; then in the 1970s sampling involved "manipulating the actual record as it was playing, repeating specific portions, seamlessly switching records and emphasizing the beats with an electronic beat box," and in the 1980s it became digital and "a staple" of hip-hop music.[54] For decades sampling's innovative re-contextualization of existing recordings to create new works has been integral to the art, value, and success of hip-hop.[55] Therefore, unless fair use is available in the sampling context, artists will remain prey to rights holders, forgo sampling and creating art in the hip-hop genre, and its cultural tradition will fade.[56]

## Part III: Revival: Sampling as Fair Use

Copyright law both anticipates and protects fair uses of even substantial takings of others' creative works, so long as the new work is sufficiently transformative and fits within the statutory framework.[57] Copyright law has long recognized that artistic works "necessarily borrow from other works…indeed, this is why works are not required to be *novel* in order to be copyrightable," and therefore, "sample-based recording artists, like writers, visual artists, and filmmakers, necessarily borrow from others in order to create their works."[58] Generally, collage is an "accepted" art form" for visual and other artists,[59] and sampling should be treated no differently in the musical context; for instance:

> Like visual artists creating collage, samplers take diverse recognizable elements and place them in a new context, thereby creating a new meaning, a new association, and a new piece of work. [A] samplers' musical collage should be accepted as the visual arts collage has been and also should be legal.[60]

The creative tool of sampling involves "sophisticated modern recontextualization of past works," and, in hip-hop particularly, the produced art "provides a unique voice" in U.S. discourse, due in part to transformative samples of past creations; and despite the case law's dubious recognition of "hip-hop's artistic legitimacy…it is a contributing vendor in the marketplace of ideas" that deserves fair use breathing room, just as any other mode of transformative collage or borrowing-style art.[61] For creativity to flourish, sampling's legitimacy as a transformative, artistic tool must have the protection of fair use available.[62]

Section 114(b) of the Copyright Act limits the exclusive rights of owners of copyrights in sound recordings to the rights to "duplicate the sound recording in the form of phonorecords or copies that directly or indirectly recapture the actual sounds fixed in the recording," and to make "derivative work[s] in which the actual sounds fixed in the sound recording are rearranged, remixed, or otherwise altered in sequence or quality.[63] Notwithstanding these limited but exclusive rights, the Copyright Act has codified an option of fair use as a protected carve-out and potential affirmative defense for unauthorized borrowing used in subsequent works.[64] In relevant part, §107 of the Copyright Act states:

> [T]he fair use of a copyrighted work… for purposes such as criticism, comment, news reporting, teaching,…scholarship, or research, is *not an infringement of copyright*. In determining whether the use made of a work in any particular case is a fair use the factors to be considered shall include—(1) the *purpose and character* of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes; (2) the *nature* of the copyrighted work; (3) the *amount and substantiality* of the portion used in relation to the copyrighted work as a whole; and (4) the effect of the use upon the *potential market for or value of* the copyrighted work.[65]

Fair use is essentially an "affirmative defense" to infringement that operates to allow borrowing, sampling, or use of a copyrighted work insofar as the four factors weigh in favor of fair use.[66]

Sampling in hip-hop, and music generally, deserves the same freedom and protection as any other form of appropriative, collage, or incorporative art form. The codified fair use doctrine prevents people from monopolizing their own art, from arbitrarily or at whim blocking otherwise lawful, transformative uses of their art by others from release to the public—which is the unfortunate circumstance of sampling in hip-hop today, and the inhibitive, restrictive clearance culture engulfing it. In the sampling context, "[a] song tells an artist's interpretation of a story. A sample takes that story and retells it in another artist's point of view," that is, an artist's own artistic expression, and thus "[e]ach interpretation is unique and should be treated as creative art."[67] As the creative fate of hip-hop is under legal siege, it is worth considering how the fair use defense could positively apply in the sampling context; it is even arguable that "most hip-hop sampling does not require licensing at all, that it constitutes a fair use of other's property."[68]

Under the first factor, the "purpose and character of the use,"[69] the highly creative and transformative nature of sampling in hip-hop, or music generally, could greatly weigh toward fair use. In the seminal case *Campbell v. Acuff-Rose Music, Inc.*, the court infused a "transformative" analysis into the first fair use factor and held that 2 Live Crew's parodic sampling of Roy Orbison's song "Oh, Pretty Woman" was sufficiently "transformative" in that it "add[ed] something new, with a further purpose or different character, altering the first with new expression, meaning, or message" so as to be a protected fair use.[70] The court also noted that though a fair use analysis entails a balancing all four statutory factors, "the goal of copyright, to promote science and the arts, is generally furthered by [] creation of transformative works, [which]…lie at the heart of the fair use doctrine's guarantee of breathing space within the confines of copyright," and thus "the more transformative the new work," the less significant the other factors, such as commercialism, will be.[71]

Recently, some cases have touched on the transformative nature of sampling under the first fair use factor. In *Bridgeport Music, Inc. v. UMG Recordings, Inc.*, the court explained in dicta that Snoop Dogg's rap song "D.O.G. in Me" was "certainly transformative" under the first factor by "having a different theme, mood, and tone" from George Clinton's song "Atomic Dog" that it sampled.[72] In *Estate of Smith v. Cash Money Records, Inc.*, the court found hip-hop artist Drake's use in his song "Pound Cake"—although he licensed all his sound recording samples, he had failed to obtain a license for the underlying composition—of Jimmy Smith's spoken word was transformative, in that Drake's "purposes in using [the original work] are sharply different from [the original artist's] goals in creating it." "This is precisely the type of fair, transformative use that 'adds something new, with a further purpose or different character, altering the first [work] with new expression, meaning, or message.'"[73] Courts could similarly apply this to the first fair use factor in the sampling context for sound recordings.[74]

In the analogous art world of appropriation photo or visual art, *Cariou v. Prince* further broadened artistic freedom of the first fair use factor—and thus overall applicability of fair use—in the case of appropriation art, which could effectively apply in the musical sampling context.[75] In *Cariou*, the Second Circuit explained that if the "secondary use adds value to the original—if [the original work] is used as raw material, transformed in the creation of new information, new aesthetics, new insights and understandings—this is the very type of activity that the fair use doctrine intends to protect for the enrichment of society,"[76] which theoretically applies to artistic sampling in either visual or musical art. Further, the court noted that there is "no requirement that a work comment on the original or its author in order to be considered transformative, and…may constitute a fair use even if it serves some purpose other than" listed in the statute.[77] The court assessed transformativeness as "how the works may be reasonably perceived," in that whether the secondary work has a different character, gives the original new expression, or employs "new aesthetics with creative and communicative results distinct from the original."[78] Additionally, commerciality has little weight under the first factor when the use is found transformative. All of this could analogously and successfully apply to sampling music as well.

If transformative usage is found under the aforementioned assessment under factor one, the second fair use factor, the "nature of the copyrighted work,"[79] may be of diminished weight, which benefits the sampler. Generally, under factor two, the more creative the art form or copyrighted material, and less fact-based, the less this factor will weigh toward fair use.[80] However, incorporating the Second Circuit's notion regarding this factor, specifically in the broad context of appropriation or collage art—just as commerciality under factor one, factor two has diminished weight where "the creative work of art is being used for a transformative purpose" under factor one.[81] Therefore, this factor could be of lesser weight in the arguable case of fair use sampling where the sample usage is sufficiently transformative under factor one.

*"If a sample usage were to critique, comment, or manipulate a prior work, rather than pay homage, it could presumably constitute a fair use, and thus not cause the type of market harm questioned under factor four."*

For the third fair use factor, "amount and substantiality of the portion used in relation to the copyrighted work as a whole,"[82] *Campbell* reasoned that taking the "heart" or even a substantial portion of the prior sampled work would be acceptable fair usage in the parodic context.[83] In *Cariou*, in the visual appropriation art context, the court found that even using explicit, major portions of a prior copyrighted work was a fair use due to the secondary use's sufficient transformativeness under factor one of the analysis, and noted that there is no requirement that the sampling artist "take no more than is necessary" when creating.[84] Particularly in the context of digital sampling in music, in considering the "qualitative and quantitative importance of the copied material to the original work," under factor three, it could often weigh in favor of application of fair use, especially in cases where the sampling was so small as to be de minimis[85] or unrecognizable to an ordinary layperson; not all sampling takes recognizable, substantial portions to transform—it can also involve such transformative sampling that the original sound recording is undetectable.

Lastly, the fourth fair use factor, the "effect of the use upon the potential market for or value of the copyrighted work,"[86] can also weigh in favor of transformative sample usage. For instance, again, in a context where the sample size or use is de minimis, or the sampling is "so small or trivial that its use would neither diminish the original's value nor displace the original's market" this factor arguably weighs toward sampling as a fair use.[87] *Cariou* noted that this factor is not about whether the secondary use "suppresses or even destroys the market for the original work or its potential derivatives, but whether the secondary use *usurps* the market of the original work," and the more transformative the use under factor one, the less likely it is that the secondary use substitutes the original, even though the transformative, fair use "might well harm, or even destroy, the market for the original."[88]

If a sample usage were to critique, comment, or manipulate a prior work, rather than pay homage, it could presumably constitute a fair use, and thus not cause the type of market harm questioned under factor four.[89] However, sampling often pays homage to prior works in new and interesting ways, but in different, transformative contexts,[90] in ways honoring the prior work in a new piece, which may even improve the market for the original work. In fact, sampling in hip-hop has in fact been shown to boost sales and popularity of sampled originals,[91] and even revive careers or broaden the listener-base of sampled artists.[92] The dated case law and *Bridgeport*'s harsh command to always obtain licenses or do not sample at all "may tempt courts to make this particular factor dispositive when evaluating the fair use defense, [which] would be a major mistake,"[93] as this factor does not depend on potential lost licensing fees to sampled artists, but on a supplanting of the market of the original work, which sampling seems rarely ever to do; rather, sampling often improves the market for the original work or fits squarely in the fair use space of reaching a new audience by sufficient transformative creation of a new work.

Therefore, sampling in hip-hop and music in general can rely on the fair use defense. Historically, this fair use protection has not been heavily applied, tested, or afforded to sampling usage, and many artists, and the hip-hop genre itself, have suffered as a result. Under fair use factors one, two, three, and four, respectively, sampling can create transformative new works that re-contextualize and entirely change a prior sound recording, transform the sampled work in a sufficiently creative way despite its initial creative nature, take anything from de minimis unrecognizable samples to entire snippets that are sufficiently transformed and intermixed into a new work, and rarely supplant the market of the original work but rather create a parodic or new genre audience based off of the sample, or even improve and expand the popularity of the full version of a sampled work. Overall, a broad policy reason that transformative art using prior art should be carved out as a fair use, in any realm of appropriation or collage art, is because the new, original works that result serve to progress art and propel culture forward, which copyright law generally seeks to promote.[94]

## Conclusion

Theoretically, prior art sampling in hip-hop songs—or music genres generally—could in any instance constitute a transformative and thus fair use under the four factors. Even if an artist takes a prior artist's life's work, if the second work is sufficiently transformative, original, and balanced as fair under the four factors, it is a protected usage not requiring any license fee or permission from the original artist. Had this approach been considered, used, or available in the history of sampling in hip-hop, rap albums and songs would not have been blocked from sale, artists would not have had to give up their songs because they could not pay license fees to other artists, and artists would not have to ration out how much money or how many samples they can afford, with artistic freedom suffering as a result. Further, Public Enemy would not have reduced its sample use in subsequent albums—heavily changing its overall sound and musical style, and hip-hop artists everywhere would enjoy the same artistic freedom as do creators other modes of art—to transform and honor prior art to create new works that propel culture forward by enmeshing and infusing modern art with prior gems. Overall, sampling is an artistic tool that deserves fair use freedom.

## Endnotes

1. Hypebeast, *Exclusive: Uncut Kanye West Interview From 2013*, YouTube (Mar. 7, 2017), *available at* https://www.youtube.com/watch?v=vJAobv6NKEI&t=335s.
2. Jennifer R. R. Mueller, *All Mixed Up: Bridgeport Music v. Dimension Films and De Minimis Digital Sampling*, 81 Ind. L. J. 435, 435 (2006) ("Sampling has become not merely the vice of a fringe music genre, but the virtue of many artists—not only rappers and hip-hop stars, but also electronic, pop, and even country artists"); Sherri Carl Hampel, *Are Samplers Getting A Bum Rap?: Copyright Infringement or Technological Creativity?*, U. Ill. L. Rev. 559, 589 (1992) (noting that while "[d]igital sampling is very important to the rap style…[it] is widespread across the music industry," even "indispensable," yet "much of the attention and controversy is focused on rap musicians").
3. *Copyright Criminals* (PBS Broadcast Jan. 18, 2010), *available at* https://vimeo.com/9958864 ("Once people in the industry got wind of the fact that the courts were not interested in listening to young black men describe their creative processes and that they had no tolerance for that, a new industry emerged—the industry of sampling clearances that meant that groups like Public Enemy could no longer make their powerful sounds in the way they wished to.") [hereinafter *Copyright Criminals*]; *see also* Olufunmilayo B. Arewa, *From J.C. Bach to Hip Hop: Musical Borrowing, Copyright and Cultural Context*, 84 N.C. L. Rev. 547, 580-81 (2006) (noting that seminal case law's specific language of sampling as "theft" framed the opinion "in a way that clearly showed the court's negative view of hip hop music," and that discussions in other hip hop sampling cases "reveal a disdainful, if not contemptuous, view by judges for the type of musical borrowing involved in hip-hop").
4. Lauren Fontein Brandes, *From Mozart to Hip-Hop: The Impact of Bridgeport v. Dimension Films on Musical Creativity*, 14 UCLA Ent. L. Rev. 93, 120 (2007) (noting that since "rap's inception, sampling has been an important element of rap music"). "Hip Hop in its truest essence is about taking the old and *transforming* it into something new, something that reflects your personal style, ideas and history. In that way, *sampling*, truly is the embodiment of that spirit, [it is] the spinal cord of Hip Hop." Amir Said, *Top 5 Myths About Hip Hop Sampling & Copyright*, Hip Hop DX (Oct. 15, 2015, 9:00 AM), *available at* https://hiphopdx.com/editorials/id.3069/title.top-5-myths-about-hip-hop-sampling-copyright (emphasis added).
5. *See* A. Dean Johnson, *Music Copyrights: The Need for an Appropriate Fair Use Analysis in Digital Sampling Infringement Suits*, 21 Fla. St. U. L. Rev. 135, 135 (1993) ("[Digital] sampling has become both the music industry's boon and bane"); Nathan Jolly, *The Chance the Rapper Lawsuit That Could Destroy the Hip Hop Industry*, The Industry Observer (Sept. 14, 2017), *available at* http://www.theindustryobserver.com.au/the-chance-the-rapper-lawsuit-that-could-destroy-the-hip-hop-industry/ ("Unauthorised sampling in hip hop has been a legal minefield since the early '90s, when the genre began to build into a commercial force, and artists whose works were being manipulated and reconstituted began to feel cheated.").
6. *Grand Upright Music Ltd. v. Warner Bros. Records*, 780 F. Supp. 182, 183 (S.D.N.Y. 1991).
7. *Id.* at 185.
8. *Jarvis v. A & M Records*, 827 F. Supp. 282, 295 (D.N.J. 1993) (noting "there can be no more brazen stealing of music than digital sampling").
9. *See Bridgeport Music, Inc. v. Dimension Films*, 410 F.3d 792, 801 (6th Cir. 2005); Jonathan D. Evans, *Solving the Sampling Riddle How the Integrated Clearinghouse Would Benefit the Industry by Promoting Creativity and Creating New Markets While Maintaining Profits for Source Material Owners*, Ent. & Sports Law. J., Winter 2012, at 16 (noting it is a "fundamental truth" that "using a sampler is using a musical instrument, artists "who sample use pieces of existing songs to make new works of music," and "[j]ust as the [music] industry would not pursue a de facto ban on music made by saxophone, it is no solution to merely tell producers '[g]et a license or do not sample'") (quoting *Bridgeport Music, Inc.*, 410 F.3d at 801).
10. *See Copyright Criminals*, *supra* note 3 ("Sampling law has created two classes; you are either rich enough to afford the law or you are a complete outlaw"). Brandes, *supra* note 4, at 119-20 (noting that the "oppressive legal climate and the cost of obtaining sampling licenses severely inhibited artists' abilities to create new works," and as a result of restrictive case law decisions, many rap songs today "contain only one hook or primary sample instead of a collage of different sounds). Specifically:

    > The legal attack on digital sampling has impeded the creativity of rap artists, particularly artists who cannot afford the exorbitant sampling fees. The current costs affiliated with the use of digital sampling have destroyed the creative sampling styles of rap groups such as Public Enemy, who distinguished themselves as a rap group via their clever use of hundreds of indecipherable samples in their songs…[And] there has been an artistic shift in rap music where many current rap songs utilize only one sample.

    Candace G. Hines, *Black Musical Traditions and Copyright Law: Historical Tensions*, 10 Mich. J. Race & L. 463, 491 (2005).

11. Robert G. Sugarman & Joseph P. Salvo, *Sampling Gives Law A New Mix: Whose Rights?*, Nat'l L.J., Nov. 11, 1991, at 21.

12. Kenneth M. Achenbach, *Grey Area: How Recent Developments in Digital Music Production Have Necessitated the Reexamination of Compulsory Licensing for Sample-Based Works*, 6 N.C. J. L. & Tech. 187, 188 (2004) (also explaining that sampling has been "used in hip-hop, dance, and other genres of music for well over a quarter of a century" and the "exact process has changed with the development of more sophisticated hardware and software technology").

13. Mueller, *supra* note 2.

14. *Id.*

15. *Copyright Criminals*, *supra* note 3.

16. 17 U.S.C. § 107.

17. There are two distinct copyrights one can have in a song: one in the underlying musical composition, and one in the sound recording. As relates to sampling, this article will focus mainly on the copyright in the original sound recording, as this is usually the issue and method involved in taking, snipping, clipping, and lifting sounds from an original sound recording, and re-incorporating, changing, re-contextualizing, or looping in into a new, subsequent, separate sound recording. Another notable sampling case, but involving both the underlying musical composition and the sound recording, was *Newton v. Diamond*, in which the Beastie Boys had obtained a license to sample James Newton's original sound recording, but not the underlying composition—yet the court held the sampling use of the musical composition was *de minimis* and thus not actionable. 388 F.3d 1189, 1190 (9th Cir. 2004).

18. 780 F. Supp. 182, 183 (S.D.N.Y. 1991) (quoting *Exodus* 20:15). "With four short words, Judge Kevin Thomas Duffy in 1991 sounded a death knell for…unauthorized sampling that characterized some hip hop music," and his "invocation of the Seventh Commandment was in fact *the opinion's only reference to any authority or precedent*." Henry Self, *Digital Sampling: A Cultural Perspective*, 9 UCLA Ent. L. Rev. 347, 355-56, v. 41 (2002) (citing Richard Harrington, *The Groove Robbers' Judgment: Order on "Sampling" Songs May Be Rap Landmark*, Wash. Post, Dec. 25, 1991, at D7) (emphasis added).

19. *Grand Upright*, 780 F. Supp. at 185.

20. *See id.* at 183 ("Defendants admit 'that the Biz Markie album "I Need A Haircut" embodies the rap recording "Alone Again" which uses three words from "Alone Again (Naturally)" composed by Gilbert O'Sullivan and a portion of the music taken from the O'Sullivan recording.'").

21. *Copyright Criminals*, *supra* note 3.

22. "As the 1990s rolled in, everything began to change. Industry leaders, lawyers, and older songwriters learned of the prevalence of sampling and the potential monetary gain from challenging it, and quickly began enforcing their copyrights." Brandes, *supra* note 4, at 118 (noting that *Grand Upright* held for the first time that unauthorized sampling [in hip-hop] was copyright infringement).

23. *See* Andre L. Smith, *Other People's Property: Hip-Hop's Inherent Clashes with Property Laws and Its Ascendance as Global Counter Culture*, 7 Va. Sports & Ent. L.J. 59, 77-80 (2007) (explaining that "after hip-hop proved its commercial viability, and digital production of music became prevalent, legendary hip-hop figure Biz Markie was sued for sampling sounds from a Gilbert O'Sullivan song" and that "[e]ssentially, [Markie] along with most hip-hop artists of the time believed his work simply created an original piece that incorporated pieces of pre-existing works (i.e., that it was a fair use of the original)").

24. *Grand Upright*, 780 F. Supp. at 183.

25. *Id.* at 185; *see also Jarvis v. A & M Records*, 827 F. Supp. 282, 291 (D.N.J. 1993) (noting that Judge Duffy "faced an issue similar to the one before this court today. A rap artist had digitally sampled a portion of a twenty-year old pop song, 'Alone Again (Naturally)' and used it as background throughout the rap song, 'Alone Again,'" yet "[t]he songs were utterly unlike and reached completely different markets. Certainly nobody would have confused the songs. Few would have bought the rap song because it contained a portion of the original song. Nonetheless, Judge Duffy found infringement") (citing *Grand Upright Music Ltd. v. Warner Brothers Records, Inc*., 780 F. Supp. 182 (S.D.N.Y. 1991)).

26. Markie's "choice of a white pop star's most famous song was indicative of a tendency to jest and would likely qualify for the subsequently-affirmed fair use allowance for 'parodic' sampling.'" Reuven Ashtar, *Theft, Transformation, and the Need of the Immaterial: A Proposal for A Fair Use Digital Sampling Regime*, 19 Alb. L.J. Sci. & Tech. 261, 266–68 (2009).

27. Stephen Carlisle, *Sounds Great! But It Sounds Very Familiar…Where to Draw the Line on Digital Sampling of Sound Recordings?*, 9 Landslide 14, 15 (2017). It is worth noting that:

> Law does not and cannot exist in a vacuum. There is always social relevance and far reaching effects of legislation and jurisprudence. History of music has proven that Black innovations receive lukewarm, if not frigid, welcomes in American society.

Neela Kartha, *Digital Sampling and Copyright Law in a Social Context: No More Colorblindness!!*, 14 U. Miami Ent. & Sports L. Rev. 218, 242 (1997); *see also* Jason H. Marcus, *Don't Stop That Funky Beat: The Essentiality of Digital Sampling to Rap Music*, 13 Hastings Comm. & Ent L.J. 767, 772 (1991) ("rap music seems to be a ripe area for indirect censorship [under] the Copyright Act").

28. 410 F.3d 792, 801 (6th Cir. 2005) ("We do not see this as stifling creativity in any significant way.").

29. *Bridgeport*, 410 F.3d at 795.

30. Mueller, *supra* note 2, at 437.

31. *Id.* at 435-36.

32. *Bridgeport*, 410 F.3d at 801.

33. Mueller, *supra* note 2, at 452, 457. (noting that "the most significant consequence of the [] *Bridgeport* rule is that it intentionally eliminated the age-old copyright infringement doctrine of *de minimis*, and nearly accidentally eliminated the statutory defense of fair use," and it stands as a "net loss for the music industry, resulting only in greater costs with little to no gain").

34. *VMG Salsoul, LLC v. Ciccone*, 824 F.3d 871, 880 (9th Cir. 2016).

35. *VMG Salsoul*, 824 F.3d at 886.

36. *Id.* at 874.

37. Regarding *Grand Upright*, one of the plaintiff's lawyers called sampling a "euphemism…developed by the music industry to mask what is obviously thievery," while "Dan Chamas, an executive with the rap label Def American Records, warned that the ruling would 'kill hip-hop music and culture.'" Brandes, *supra* note 4, at 118 (noting that the decision "changed the landscape of rap music" and since it was decided "there has been a severe decrease in the amount of sampling in rap works").

38. *See* Chris Johnstone, *Underground Appeal: A Sample of the Chronic Questions in Copyright Law Pertaining to the Transformative Use of Digital Music in a Civil Society*, 77 S. Cal. L. Rev. 397, 414 (2004) (noting that "[i]t remains unclear whether many of the licenses that are secured are indeed necessary. Lawyers are rarely hesitant to send intimidating cease-and-desist letters and can easily threaten dire legal consequences, such as injunctive relief and criminal sanctions…. The unequal bargaining power between

musicians and record companies further exacerbates the overevaluation of licenses").

39. "In the same vein as *Grand Upright*, *Bridgeport* [] functions as a legally binding decree of what sort of art, and what sort of technology, society is willing to accept as valid," and the case law "has had a distinct chilling effect on creativity within the sampling community." Unsigned, *Not in Court 'Cause I Stole a Beat: The Digital Music Sampling Debate's Discourse on Race and Culture, and the Need for Test Case Litigation*, U. Ill. J.L. Tech. & Pol'y, Spring 2012, at 141, 155.

40. "Record companies fear severe consequences if they release music that includes samples that have not been licensed. This apprehension has been perpetuated by unsympathetic judicial opinions written in the early 1990s." Johnstone, *supra* note 38, at 402. Furthermore, "[i]n this context, it is unfortunately of little surprise that DJs of color are adversely affected by the prosecution of digital sampling technology use. Unsigned, *supra* note 39, at 142.

41. For example, after *Grand Upright* in 1991 and *Bridgeport* in 2005, in 2006, a judge ordered sales of Biggie Smalls' album *Ready to Die* halted because the titular track sampled a 1972 Ohio Players song, "Singing in the Morning," without authorization. *Judge Halts Notorious B.I.G. Album Sales*, USA Today (Mar. 18, 2006, 11:36 PM), *available at* https://usatoday30.usatoday.com/life/music/news/2006-03-18-rap-sampling_x.htm.

42. As Professor Kembrew McLeod explains:

> Just a brief one second sound bite is considered an infringement—it made more interesting collage-heavy, mind-blowing stuff illegal, or if not illegal, it made it administratively impossible to clear all these dozens if not hundreds of different samples that appeared on those records. And it basically wiped out—it put a stop to one branch of hip hop's evolution.

Ira Flatow, *Digital Music Sampling: Creativity or Criminalit*y, NPR (Jan. 28, 2011, 11:00 PM), *available at* https://www.npr.org/2011/01/28/133306353/Digital-Music-Sampling-Creativity-Or-Criminality.

43. *See* Smith, *supra* note 23, at 80-81 (explaining that "[s]ome artists, such as Public Enemy, simply abandoned their distinctive sound," determining who holds the rights to a work and negotiating licenses with said holder is "time consuming and costly," and "the time it takes to discover a rights holder and negotiate a license carries potentially grave opportunity costs in the music industry, which often seeks to exploit fast moving fads and crazes"). Another example of samplers being at the mercy of sound recording rights holders, who potentially can block uses regardless of how transformative the use would have been, is when rap artist Kanye West sought to use a Steely Dan sample in his song "Champion"; Steely Dan initially did not approve of the use, regardless of fees, and Kanye ultimately wrote a letter specifying why and how the use was so important to him, the song, and his art, which convinced Steely Dan otherwise—yet this level of overbroad control almost blocked "Champion" from ever being released to the public, and artists should not have to resort to such tactics to create otherwise transformative art and fair uses of prior works. *See* Andy Cush, *Kanye West Got the Steely Dan Sample on Graduation Cleared by Sending Donald Fagen a Handwritten Letter*, Spin (Sept. 11, 2017), *available at* https://www.spin.com/2017/09/kanye-west-steely-dan-sample-handwritten-letter/.

44. John S. Pelletier, *Sampling the Circuits: The Case for a New Comprehensive Scheme for Determining Copyright Infringement as a Result of Music Sampling*, 89 Wash. U. L. Rev. 1161, 1189 (2012). ("[F]or many artists, the creative choice to sample has been supplanted by an economic choice not to sample"). Hank Shocklee of Public Enemy has also noted that creativity has been stifled in hip-hop in that sampling has unfortunately become a luxury of elite artists, such as Jay-Z and Kanye West, who can afford to pay sample rates. Wayne M. Cox, *Rhymin' and Stealin'? The History of Sampling in the Hip-Hop and Dance Music Worlds and How U.S. Copyright Law & Judicial Precedent Serves to Shackle Art*, 14 Va. Sports & Ent. L.J. 219, 245 (2015).

45. John S. Ehrett, *Fair Use and an Attribution-Oriented Approach to Music Sampling*, 33 Yale J. on Reg. 655, 662 (2016). Cox, *supra* note 44, at 244-46 (explaining "escalating costs of licensing samples… creates a prohibitive barrier to following one's creative impulses and sampling songs for a new creative work," and though "music employing a sample-intensive backbone in multiple genres has [been] hailed as artistically viable dating back to at least the 1960s…the cost-prohibitive barricade currently in place refuses to reflect the respect for said art").

46. For instance, "big name" producers may be able to "sample quite easily and legally because they have resources to 'clear' samples and/or defend themselves in court, yet these top names (e.g., Kanye West, Timbaland) certainly cannot do *so cheaply*." Evans, *supra* note 9; *see also* Lucy Jones, *Kanye's 'Yeezus'—Why His Sampling Still Sets Him Apart*, NME Blogs (June 17, 2013), *available at* http://www.nme.com/blogs/nme-blogs/kanyes-yeezus-why-his-sampling-still-sets-him-apart-23200 (noting Kanye's "genius" at sample usage, and that "[a]t time when copyright law sometimes suffocates the use of sampling in hip-hop" he continues to sample even though he has been sued several times; "[o]ne imagines he has enough money to risk it. If you look back at West's six albums you'll see how important this technique is to his product. By manipulating tempo, chopping and stretching, samples are putty in his hands"), *available at* http://www.nme.com/blogs/nme-blogs/kanyes-yeezus-why-his-sampling-still-sets-him-apart-23200

47. Evans, *supra* note 9. For rap groups or artists like Public Enemy "who used thousands of small samples, the entire production process could be scrapped after securing licenses from ninety-nine rights holders because of a refusal of the hundredth," which in turn gives "rights holders…[a dangerous] incentive to refrain from contracting early, and hold out for more money once others have signed on, thus lengthening the production process and increasing opportunity costs." Smith, *supra* note 23, at 81. Tonya M. Evans, *Sampling, Looping, and Mashing…Oh My!: How Hip Hop Music Is Scratching More Than the Surface of Copyright Law*, 21 Fordham Intell. Prop. Media & Ent. L.J. 843, 862 (2011) (describing Public Enemy's collage-style of hip-hop music creation the reason for their "ascension to legendary status" by "amass[ing] hundreds of independently unrecognizable pre-existing sounds (everything from vocal wails to police sirens) and used them to create powerful new musical tracks over which they delivered political commentary about issues of race, racism, economics, violence, police brutality and religion," which was effectively thwarted and halted by increasingly exorbitant copyright clearance costs).

48. Hines, *supra* note 10, at 464.

49. *Id.*

50. *Id.* (explaining that "Public Enemy represents only one of the many Black performers and musicians that have been affected by a copyright law that is structurally incompatible with their creative process.").

51. *See* James P. Allen, Jr., *Look What They've Done to My Song Ma—Digital Sampling in the 90's: A Legal Challenge for the Music Industry*, 9 U. Miami Ent. & Sports L. Rev. 179, 198 (1992) (without a fair use defense "sampling as a form of creative expression" may be "effectively eliminated" in "contravention of the purpose of the Copyright Act" to promote artistic creativity and innovation and the public's access to it).

52. Essentially, the issue of sampling's legality or fair usage can be viewed as a manifestation of tension between:

> Two very different perspectives on creativity: a print culture that is based on ideals of individual autonomy, commodification and capitalism; and a folk culture that emphasizes integration, reclamation and contribution to an intertextual, intergenerational discourse. The unfortunate result of this tension is that American copyright law, which the Constitutional framers intended 'To promote the…Arts' is sometimes used to stifle the very creativity that it is supposed to encourage.

Self, *supra* note 18, at 358.

53. Hines, *supra* note 10, at 489.

54. Jeffrey F. Kersting, *Singing A Different Tune: Was the Sixth Circuit Justified in Changing the Protection of Sound Recordings in Bridgeport Music, Inc. v. Dimension Films?*, 74 U. Cin. L. Rev. 663, 666-67 (2005) (noting that "[t]echnological advances eliminated the need for a DJ's manual dexterity and instead allowed even less-skilled users to record, manipulate, and replay any type of sound"); *see also* Jeremy Scott Sykes, *Copyright—the De Minimis Defense in Copyright Infringement Actions Involving Music Sampling*, 36 U. Mem. L. Rev. 749, 757-58 (2006).

55. Evans, *supra* note 47, at 845-46 (describing sampling, cutting, scratching, looping, and mashing as "collectively [the] creative processes [that] are the hallmark of the type of creativity and innovation born out of the hip hop music tradition").

56. *See* Self, *supra* note 18, at 358 (explaining that artists may "be prevented by copyright owners and even by their own record labels from engaging in intertextual approaches to making music that could, in fact, be totally legal by virtue of fair use or *de minimis* analyses," which illuminates "Judge Kozinski's point that '[o]verprotecting intellectual property is as harmful as underprotecting it…. Overprotection stifles the very creative forces it's supposed to nurture' ").

57. Rahmiel David Rothenberg, *Sampling: Musical Authorship Out of Tune with the Purpose of the Copyright Regime*, 20 St. Thomas L. Rev. 233, 249 (2008) ("[E]ven when an appropriated work is substantially similar to the original, if the new work is thought to be truly *transformative*, the fair use defense should allow for the creation of such work").

58. Mueller, *supra* note 2, at 457 ("[A]llowing copyright protection for every note in a sound recording would stifle creativity in music just as much as allowing a writer copyright protection for every letter of the alphabet he uses in writing a novel would stifle creativity in literature").

59. Hampel, *supra* note 2, at 588.

60. *Id.* Note also that "finding and manipulating samples can be more time-consuming than recreating the sample with live instruments, [as] rap artists and producers must meticulously listen to records to find a particular sample"; sample selection, manipulation, and imagination "requires artistic judgment"; and similar to an artist of a "collage or compilation, rap artists must listen to a wide variety of available materials and choose the sounds that will best suit their new work. Rap artists use samples as building blocks to create new and original works, often *transforming* the samples." Brandes, *supra* note 4, at 121 (emphasis added). As Shock G of Digital Underground puts it:

> Perhaps it is a little easier to take a piece of music than it is to learn how to play a guitar or something; true, just like it is [] easier to snap a picture with [a] camera, than it is to actually paint a picture. But what the photographer is to the painter, is what the modern producer, DJ, and computer musician is to the instrumentalist.

*Copyright Criminals*, *supra* note 3.

61. Johnstone, *supra* note 38, at 403-04 ("hip-hop can be seen as an artistic filtration process, recontextualizing past works to create fresh cultural meaning"); *see also* Leah Hurvitz, *"Can't Touch This": A Comparative Analysis of Sampling Law in the United States and Internationally*, 23 Mich. St. Int'l. L. Rev. 231, 235 (2014) ("Sampling is a musical version of the collage artwork genre. Many famous artists, literary and visual, have used other people's work in their own…[and] in the art world it is common practice to take photographs and paint them, as exemplified by famous artist Andy Warhol"); Hampel *supra* note 2, at 586 (samplers "can combine bits and pieces of various songs to create a new song. Likewise, visual artists have used a similar method of piecing together various recognizable objects to make a new work").

62. Sharon Colchamiro, *To Clear or Not to Clear: Licensing Digital Samples*, 5 Hofstra Prop. L.J. 157, 160 (1992) (noting that hip-hop artists can be viewed as the "musical equivalent" to "visual collage artists, because they too use the work of others as a basis for their own creations," but for hip-hop to "flourish…the legitimacy of sampling as an integral part of the genre must necessarily be acknowledged"); *see also* Johnstone, *supra* note 38, at 399–00 (describing sampling as a transformative use in hip-hop that is "a crucial part of its creative identity").

63. 17 U.S.C. § 114(b) (also stating that the exclusive rights of the owner of copyright in a sound recording to reproduce and prepare derivative works "do not extend to the making or duplication of another sound recording that consists entirely of an independent fixation of other sounds, even though such sounds imitate or simulate those in the copyrighted sound recording").

64. *See* 17 U.S.C. § 107.

65. *Id.* (emphasis added). However, the four fair factors "are not the only ones a court may consider; they are merely illustrative rather than exclusive. The language of the statute…implies the consideration of non-enumerated items. Thus, the law grants the trial judge the discretion to weigh other factors in the analysis," so "judicial discretion can play a significant role in digital sampling infringement cases if judges choose to consider various factors that are better suited for an accurate fair use determination." *See* Johnson, *supra* note 5, at 144.

66. Adrienne Barbour, *Yes, Rasta 2.0: Cariou v. Prince and the Fair Use Test of Transformative Use in Appropriation Art Cases*, 14 Tul. J. Tech. & Intell. Prop. 365, 368 (2011).

67. *See* Hurvitz, *supra* note 61, at 263; *see also* Johnstone, *supra* note 38, at 432 ("It is undeniable that the transformative use of samples in rap music has changed the face of the cultural icons in the United States and has exposed a generation of suburban Americans to a perspective of the urban condition. Copyright law should seek to encourage the transformative use of digital samples.").

68. Smith, *supra* note 23, at 83; *see also* Johnson, *supra* note 5, at 138 ("the fair use doctrine should remain a viable defense to claims that sampling constitutes copyright infringement"), and Brandes, *supra* note 4, at 113 ("[t]he fair use defense may [] be a useful mechanism for allowing the creative use of samples in rap music," as it "promotes the creation of new works by recognizing that some uses should not be infringement").

69. 17 U.S.C. § 107.

70. 510 U.S. 569, 579 (1994).

71. *Id.* "[T]he concept of transformative use…could provide promise to sampling artists." Rahmiel David Rothenberg, *Sampling: Musical Authorship Out of Tune with the Purpose of the Copyright Regime*, 20 St. Thomas L. Rev. 233, 252 (2008).

72. 585 F.3d 267, 278 (6th Cir. 2009). In another case involving Snoop Dogg sampling prior art in a subsequent rap song, the court reasoned that "if a secondary work transforms the expression of

the original work such that the two works cease to be substantially similar, then the secondary work is not a derivative work and, for that matter, *does not infringe the copyright of the original work*," and even more significantly, the court noted that fact that the "case involve[d] the practice of sampling prior music into a new composition does not alter this analysis." Mueller, *supra* note 2, at 451–52 (quoting *Williams v. Broadus*, 2001 WL 984714, at *3 (S.D.N.Y. 2001)).

73. 253 F. Supp. 3d 737, 750 (S.D.N.Y. 2017) (citing *Blanch v. Koons*, 467 F.3d 244, 252 (2d Cir. 2006); *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 579 (1994)); *see also* Amanda G. Ciccatelli, *The Impact of Drake's Fair Use Copyright Victory on Music Copyright Infringement*, IP Watchdog (June 17, 2017), *see also* http://www.ipwatchdog.com/2017/06/17/drakes-fair-use-copyright-victory-music-copyright-infringement/id=84504/.

74. *See* Colchamiro, *supra* note 62, at 169 (explaining that in the sampling in the rap context can be "a gesture of respect" that incorporates "an educational and critical element that should be weighed against the profit motive in determining the true purpose and character of the use," and "[e]ducating listeners to the roots of the music they hear by incorporating older genres into new works could also serve to create a new audience for the original (sampled) work. This form of 'free advertising' for the sampled work should also be considered by the court").

75. *See generally* 714 F.3d 694 (2d Cir. 2013) (holding that all but five of Prince's dozens of photo collage works at issue were fair uses of Cariou's copyrighted photographs as a matter of law).

76. *Cariou*, at 706.

77. *Id.*

78. *Second Circuit Clarifies Transformativeness Standard for Copyright Fair Use*, Pract. L. Legal Update 7-526-6345.

79. 17 U.S.C. § 107.

80. *See Campbell v. Acuff-Rose Music, Inc*., 510 U.S. 569, 586 (1994).

81. *Cariou v. Prince*, 714 F.3d 694, 710 (2d Cir. 2013).

82. 17 U.S.C. § 107.

83. *See Campbell*, 510 U.S. at 589.

84. *Cariou*, 714 F.3d at 710.

85. Brandes, *supra* note 4, at 115. Samples are often quantitatively small, that is, a few notes or words—for example: De La Soul sampling small pieces from Steely Dan's "Peg" or James Brown recordings on its album *3 Feet High & Rising* "arguably do not make up the essence of the original songs," and "[t]wo lines from an entire song should be considered a small portion and thus the fair use doctrine should apply." Hampel, *supra* note 2, at 578.

86. 17 U.S.C. § 107.

87. *See* Johnson, *supra* note 5, at 152.

88. 714 F.3d 694, 708-09 (2d Cir. 2013); *see also* Barbour, *supra* note 66, at 376 (noting that "when the use is sufficiently transformative, albeit commercial, it is less likely to become a market substitute of the original and, instead, will serve a 'different market function'").

89. *See generally Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569 (1994) (sampling prior song in new parody rap version constituted a fair use).

90. *See* Marcus, *supra* note 27, at 773 (noting that one reason to promote sampling in hip-hop music is that "[t]hrough this medium, many artists pay homage to the strong roots of black American music," so "[r]appers are able to affirm and Revi on the historical sounds of those artists by weaving them into new arrangements").

91. *See* Anthony Wing Kosner, *Study Shows That Hip Hop Sampling Boosts Sales of the Songs Sampled*, Forbes (Oct. 19, 2013, 10:21 PM), *available at* https://www.forbes.com/sites/anthonykosner/2013/10/18/study-shows-that-hip-hop-sampling-boosts-sales-of-the-songs-sampled/#4e854c26213c.

92. *See* James P. Allen, Jr., *Look What They've Done to My Song Ma--Digital Sampling in the 90's: A Legal Challenge for the Music Industry*, 9 U. Miami Ent. & Sports L. Rev. 179, 198 (1992) (digital sampling of "splicing a sample of another performer's work and inserting it into a new creation may actually generate additional demand for the infringed owner's work); *Copyright Criminals*, *supra* note 3 ("One of the things that sampling has done is that is has revitalized a whole bunch of musicians' careers. At the time that a lot of hip-hop producers started sampling George Clinton, his records were not available commercially anymore—so hip-hop literally re-introduced the world to George Clinton"); Andre L. Smith, *Other People's Property: Hip-Hop's Inherent Clashes with Property Laws and Its Ascendance As Global Counter Culture*, 7 Va. Sports & Ent. L.J. 59, 77-80 (2007) (explaining that "hip-hop sampling advertises the original work," arguably "a great deal of young people's familiarity with, respect for, and thus their willingness to purchase original materials from artists such as James Brown or Nina Simone, stems directly from the fact hip-hop producers find these artists worthy of borrowing from," and honoring can arguably be a form of "criticism," which is a protected fair use). In noting that the fourth fair use factor would likely weigh in favor of a sampler, "rather than closing out markets or competing with the original artists, rap has produced some benefits to the sampled performers," for instance:

> Bobby Byrd's *I Know You Got Soul* was sampled by Eric B. & Rakim in their song of the same name. Since then, [Byrd's] career has been revitalized. As a result of the popularity of Eric B. & Rakim's song, he has gone on European tours and openly cheers for the rappers' use of his and other older artists' music.

Hampel, *supra* note 2, at 579.

93. Kersting *supra* note 54, at 687 (noting that all four fair use factors "must be balanced against one another in every case, and no single factor is to be given conclusive weight").

94. Evans, *supra* note 47, at 845 (noting that "twenty-first century technologies used to create and to disseminate music have stressed copyright's property-based rights framework beyond its fragile limits. And now copyright law, as applied to music generally, and sample-based works specifically, fails to meet [the] constitutional objective" of promoting creativity and innovation, and such "failure is made all too clear in the case of an intensive sample-based music genre like hip hop").

**Caroline Barry is the Associate Managing Editor of the *St. John's Law Review* and *Journal of Catholic Legal Studies*. She is currently a legal intern at Catholic Charities Refugee & Immigration Legal Services. Caroline is a J.D. Candidate 2018 at St. John's University School of Law. She previously graduated from the University of Miami, where she received the Ramon Lemos Award for Excellence in Philosophy, was a member of the National Society of Collegiate Scholars and Alpha Lambda Delta Honors Society, and was on the Dean's List.**

**Joseph P. Salvo, Executive Vice President and General Counsel at Sesame Workshop and Adjunct Professor at St. John's University School of Law, reviewed this article.**

**NEW YORK STATE BAR ASSOCIATION**
**ENTERTAINMENT, ARTS AND SPORTS LAW SECTION**

# ANNUAL MEETING

January 23, 2018

**WELCOME; BUSINESS MEETING, AND AWARDS**
**ELECTION OF OFFICERS, DELEGATES, DISTRICT REPRESENTATIVES**

**Section Chair:**
**Diane F. Krausz, Esq.**
Law Offices of Diane Krausz
New York City

**Program Co-Chairs:**
Ethan Bordman, Esq. | Pamela Jones, Esq. | Robert Seigel, Esq.
Barry Skidelsky, Esq. | Irina Tarsis, Esq. | Mary Ann Zimmer, Esq.

**DIANE KRAUSZ:** Before we get started with our wonderful seminars we have a few little matters of business. As your outgoing Chair, we're going to start first with a presentation from one of our esteemed members, Lesley Rosenthal, who has an announcement on behalf of the Bar Association. Then I will be back to you with our nomination report and a few other things, and then we'll start.

**LESLEY ROSENTHAL:** Hi there, thanks so much, it's so nice to see you all again. I'm a long-time member of this Section, and I am coming to speak with you today on behalf of the New York Bar Foundation.

As you may know, the Bar Foundation is the charitable arm of the New York State Bar Association. I am here to offer you not CLE credits, but H-E-A-V-E-N credits. The way you earn those is by making a donation to the Foundation today. We are collecting money so that we can re-grant it straight back out to New York State law-related charities on matters that we know you care about deeply.

Access to justice, the fairness of our justice system, immigrant rights, making sure that victims of domestic violence have the representation that they need to move on with their lives. The Foundation gives away $700,000 a year, and that money comes in because of you. I am requesting if each person who's attending these meetings this week gave $50, we would be able to add $200,000 to that $700,000, to bring us ever closer to that million-dollar mark, where I'm hoping we're going to get to. I'm the incoming President of the Foundation starting in June, and we have really big plans to make sure that the Foundation is really fully supporting unmet legal needs in the state of New York.

You can find us on tnybf.org. If you're on social media, I'd love for you to brag about your donation to get your HEAVEN credits on #Nylawyersgive on any of your social media channels. You do make a difference. Now I'd like to ask you to turn your attention to the screen, where you'll hear a little bit more first-person narrative about the difference that your charitable giving to the New York Bar Foundation can make.

(Whereupon, a brief video was shown.)

**VIDEO-MALE SPEAKER:** The Bar Foundation is the philanthropic arm of the New York State Bar Association. The Foundation's been in existence for 65 years, and over the course of those six decades, has provided financial support to many organizations throughout New York State.

**VIDEO-FEMALE SPEAKER:** The New York Bar Foundation grant is enormously helpful to us. Our mission is to provide legal services to the poor using volunteer attorneys. Funding for civil legal services is so important, and the Foundation's role in helping support civil legal services and access to justice for those who cannot afford representation, it's extraordinarily helpful.

**VIDEO-FEMALE SPEAKER:** There's been a huge change in the population here in Buffalo. We've had a lot of people coming from all over the world, really enriching Buffalo. By having refugees primarily resettling here, I really think the impact of this grant is very far-reaching. The family came to our office initially because they were not finding anyone who would help them. I was able to go to their home and have a language access plan available there and found out that they were being trafficked. Their children were being held at gunpoint. What they couldn't access is getting assistance from the police.

Now there is a written language access plan that the police are using, and I was able to communicate with them and connect them with the police so that they could get protection.

**VIDEO-FEMALE SPEAKER:** I'll say, "Thank you," and I'll say, "Continue to help people." If I achieve my goal in the future, I'll help the people too.

**VIDEO-FEMALE SPEAKER:** I know that if they need any help, there are people like lawyers that can help them. They can just go seek them and talk with them, and they give them the right advice.

**VIDEO-FEMALE SPEAKER:** Without this grant I would be unable to provide this service; thank you for providing the funds to make it possible for us to serve.

**VIDEO-FEMALE SPEAKER:** Our team in Rochester has made such an impact on young people, it's given them a chance to make an impact on them, that make a difference on them. Every single dollar they give to us, to thank the New York State Bar Foundation and other ways, really make a difference in the lives of young people. It's prevention and intervention and has a long-lasting impact.

**VIDEO-FEMALE SPEAKER:** The moneys that we received from the Foundation have assisted our office in growing our veterans' legal services project.

**VIDEO-MALE SPEAKER:** There are instances where we've been able to get to a state in eviction proceedings to allow a smooth transition into housing without homelessness or waiting on the streets or living at a shelter.

**VIDEO-FEMALE SPEAKER:** There is no better way to give back to your community than to give to those who have already served you. These are our men and women who signed a blank check and said, "Sure, I'll go over and I'll defend your freedoms." Now they've come home, and they have a host of issues. Among those issues are legal issues.

**VIDEO-MALE SPEAKER:** When we have the privilege to practice law, we have the obligation to additionally assist those who need access to justice. Our Foundation provides us with the opportunity.

**VIDEO-FEMALE SPEAKER:** Can you be bold with the work that you do, no matter who you are?

(Whereupon, the video ended.)

**LESLEY ROSENTHAL:** Thank you so much for your time and attention.

Please do consider giving to the New York Bar Foundation and helping these worthy causes. Thanks again.

**DIANE KRAUSZ:** Okay, next up I'm going to bring up Steve Rodner who is our Immediate Past Chair of EASL, and he will be doing our nomination report.

**STEVE RODNER:** Hi, for those of you who are not aware, every two years the Immediate Past Chair heads the Nominating Committee to nominate a slate of new Officers, District Representatives, and EASL Delegates to the State Bar. If you look in your material, the green page, you will see a wonderful list of great people that we were able to nominate this year, and present to you for approval. The slate has been unanimously endorsed by the Executive Committee of this Section and I want to read the names. For those of you who are here, when I read your name, stand up or make yourself known, so people can see who you are.

Officers coming in, the Chair, Barry Skidelsky; First Vice-Chair, Anne Atkinson; Second Vice-Chair, Joyce Dollinger right there; Treasurer, Lisa Wills; Assistant Treasurer, Andy Siden; Secretary, Ethan Bordman, Assistant Secretary, Joan Faier.

All right. District Representatives: Second District, Innes Smolansky; Third District, Bennett Liebman; Fourth District, Edward Flink; Eighth District, Les Greenbaum. Tenth District, Amanda Dworetsky; Eleventh, David Faux. Twelfth, Jennifer Liebman, and the Thirteenth, Daniel Marotta. The EASL Delegates this year will be Barry Skidelsky, Steve Richmond, and Diane Krausz.

Do I hear a motion?

**MALE SPEAKER:** So moved.

**STEVE RODNER:** All in favor?

**AUDIENCE:** Aye!

**STEVE RODNER:** Any opposition?

The slates have been approved.

**DIANE KRAUSZ:** Yes. I'd like to introduce you to Barry.

**BARRY SKIDELSKY:** Hi everybody, thank you for coming.

**DIANE KRAUSZ:** Together we're going to have Judith Bresler come over and discuss the Phil Cowan/BMI Scholarship winners. Then Barry will be taking over.

**JUDITH BRESLER:** Hi everybody. For those of you who are new, I wanted to let you know about a joint initiative between our Section and BMI, which has been in effect since 2005. It's the Phil Cowan Memorial/BMI Scholarship. Each year, our Section and BMI based on a writing competition for law students throughout New York State, two law schools in New Jersey, and up to 10 other law schools on a national basis done on a rotating basis, can submit a writing, a piece, an article, on entertainment, art law, sports law, or copyright law. We award two scholarships to the winners of the writing competition. On behalf of my Co-Chair Justice Barbara Jaffey, who could not be here today, and on behalf of BMI, we would like to congratulate the winners this year and ask them to come up. Sean McGrath from St John's University School of Law. Oh dear ...

**DIANE KRAUSZ:** [Inaudible].

**JUDITH BRESLER:** Well he's probably still in class. How about David Manella, from Columbia University's joint JD/MFA Program? Come on up here.

**DIANE KRAUSZ:** Congratulations to you.

**JUDITH BRESLER:** Revi Enriquez-Cohen, come on up.

I'm going to do a very quick bio of each one of them. David Manella wrote a fabulous paper entitled, "Anything Goes, Regulating the Conduct of Money Bundling Broadway Co-Producers." David Manella is a fourth-year student at Colombia's Joint JD/MFA Program for Theater Managers and Producers. He is currently the Editor-in-Chief of the *Columbia Journal of Law and the Arts*, and the head of Creative Development for Sea View Productions, a Broadway, Off Broadway, and West End Production Company. After graduation, David will be joining Arelle and Manella in Los Angeles as a full-time legal associate. That's David.

Sean McGrath wrote the other winning piece, and it's entitled, "The Light at The End of the Runway, Clarification of the Conceptual Separability Test May Help Correctly Shift the Balance of Copyright Protection in Favor of Fashion Designers." I will not read you the subtitle. Sean McGrath is a third-year student at St. John's University School of Law, where he serves on the Executive Board for the Entertainment, Arts and Sports Law Society, and is a senior member of the *St. John's Law Review*. Additionally, Sean is captain of Baseball Arbitration Team, which finished first in the 2017 National Baseball Arbitration Competition. Sean will be working at Latham & Watkins after graduation, where he hopes to stay involved in the sports and entertainment industries.

**DIANE KRAUSZ:** On behalf of Broadcast Music, Inc. we are proud to help support the next generation of entertainment, arts and sports law lawyers. Thank you very much and congratulations, David and Sean.

**BARRY SKIDELSKY:** Thank you Judith and thank you all again, and thank you Diane for your service to the Entertainment, Arts and Sports Law Section, a small token of our appreciation from Tiffany's in the blue bag.

Thank you.

**DIANE KRAUSZ:** Thank you very much. Thank you.

**BARRY SKIDELSKY:** Again, thank you Diane and thank all of you for selecting me to serve as EASL's new Chair. In this, the 30th year of our Section, I am honored, and humbled, and frankly a little frightened. These are challenging times for all of us, but with a little help from the Section's prior Chairs, Officers elected today, Executive Committee Members, Committee Chairs, District Reps, and each of you, together we can help EASL adapt to today's environment and the foreseeable future, in order to better meet our professional and personal needs. To that end and because none of us gets anywhere without a little help from our friends, I ask each of you to please reach out to me—whether at today's meeting, later at our first ever joint networking reception with the IP Section, at which I hope to see most if not all of you, or at your earliest opportunity, let's talk about how we can help each other and our Committees and our Section. For those of you who may not know me, I've been Co-Chair of our Television and Radio Committee as well as an EASL Executive Committee Member for years, frequently involved in planning various programs, such as this afternoon's program on Content Distribution.

I'm currently in private practice as an attorney and consultant, and provide diverse services to individuals and entities, including other lawyers and law firms who are involved with entertainment, media, telecommunications, and technology. An abbreviated bio along with an article I wrote relating to this afternoon's second panel, is in the *EASL Journal*. In collusion, I mean in conclusion… I'm sincerely thankful for the opportunity to work with so many other creative and interesting people, collaborating to make the imagined real. I look forward to doing just that with you as EASL's new Chair.

Thank you again.


**Panel 1: Take a Bow: What Happens to the Assets After the "Greatest Show on Earth' Is Over?**

**Moderators:** Irina Tarsis, Esq., Barry Werbin, Esq., and Oliver Herzfeld, Esq.

**Panelists:**
Barry Werbin, Esq., Counsel, Herrick, Feinstein LLP
Oliver Herzfeld, Esq., Senior VP and Chief Legal Officer, Beanstalk
Richard Gering, CLP and a principal of Asterion

**BARRY SKIDELSKY:** Now moving on to our first panel, I would like to introduce Irina Tarsis, and ask that she and the other first panelists please come up to the podium. This panel is entitled, "Take A Bow, What Happens to The Assets After the Greatest Show on Earth Is Over?" As you can imagine when a business in our field shuts its doors, what do we do with the IP and other assets left over? This panel will address that and more as Irina will explain. She is also a member of the EASL Executive Committee, in private practice, and Founding Director of the Center for Art Law. Please join me in welcoming Irina and our other panelists.

**IRINA TARSIS:** Our panel is entitled "Take a Bow." When the announcement of Ringling Bros. and Barnum & Bailey Circus closing made the news last year in May, I don't know how you felt but I felt sad. I read legal obituaries of entities like Knoedler Gallery, the Corcoran Museum Collection, and FAO Schwartz, so I thought Barnum & Bailey deserves its own obituary. It's been around for over 140 years.

Well this is the entertainment business, quite significant, there must be something legal about it in addition to momentous. After much brainstorming and thinking, maybe we should talk about theater or maybe we should talk about museums, art galleries; thanks to Barry Werbin, we actually went from curiosity to a fully-fledged EASL program. We will talk about the IP assets that are left behind when the Greatest Show on Earth ends. What I have learned as a result of my preparatory work, that really the Greatest Show on Earth never ends. I don't know if you've seen, "The Greatest Showman"; we can talk about that film or not. I'll introduce our panelists in a couple of minutes.

This is our inspiration for the program, and here is a message from Kenneth Feld; he was the last owner of privately owned circus, privately held saying, "We're sad to be showing our clowns and jugglers, etc. for the last time." They retired their elephants, and I would like to show you very briefly the farewell by the Ringling Circus' Ringmaster.

**VIDEO-MALE SPEAKER:** Ringling Bros. and Barnum & Bailey is a template for world peace, whether we're ringmasters, trapeze artists, animal trainers or crew members.

We make something magnificent to share with others.

"Ladies and gentlemen and children of all ages, the Feld family is proud to present Ringling Bros. and Barnum & Bailey. Welcome to the Greatest Show on Earth. "

**IRINA TARSIS:** All right, so when you go on to Ringling Bros. website, you can click on the video and see the beautiful snippets from the last show. I don't know if you've seen the Greatest Show on Earth? I did, I took my children, and I'm happy to report there are other circuses around, so it's not really all over. But is the Greatest Show all over?

In your EASL materials, I put together a list of some cases where Barnum & Bailey appeared as a plaintiff or as a defendant. As you can imagine, there are a fair number of attractive nuisance cases, of kids going to see elephants being unloaded and carts going out of control. There are also cases dealing with animal rights, there are cases dealing with negligence, work-related trauma. A fair number, maybe 50%, of those cases are dealing with intellectual property protection.

FAO Schwartz went out of business, and then this October, FAO Schwartz is back. Here's the scoop; well, my list was not complete until December 27th, that's the day after Christmas when Feld Entertainment and others, meaning Barnum & Bailey Inc., filed a trademark infringement case against Kid Rock. The complaint is in your materials so I would posit to you that the Greatest Show on Earth is really never over. These are some of the exhibits included in the complaint, and they are documents of the U.S. Patent and Trademark Office, demonstrating that the trademarks are very much alive. Kid Rock wanted to name his 2018 concert tour "The Greatest Show on Earth", but he can't do it yet. He has to protect himself in the court of law.

This is something to think about, as we actually switch from curious to constructive and helpful. The order of our program today in we'll hear first about basics of bankruptcy law and intellectual property assets. We thought maybe this is going to be the way to structure information. After a business such as Barnum & Bailey or fill in the blank, Tower Records, can't sustain themselves any longer, what happens to their assets? What happens to their real estate agreements, what happens to their labor agreements, what happens to their intellectual property assets? We will talk about different restructuring models—from going out of business, to merging and maybe going back in business in a different manifestation.

Then we'll talk about licensing issues, where licensors or licensees are living through these turbulent times. Then lastly, we'll talk about numbers, how do you actually appraise an asset of a business that seems to be no more. We will have a discussion amongst the panelists after that. There are a couple of questions that we tested, and they seemed to have worked, so that will be a way of us moving from a dialogue to questions from the floor. Without me hogging the podium much longer, I will introduce the next speaker. Full bios are in your materials, but our first speaker is Barry Werbin. He is of Counsel with Herrick Feinstein and he will give us the introduction on bankruptcy law and IP assets.

Barry.

**BARRY WERBIN:** Thanks, Irina.

I'm happy to be here today on this miserable rainy day. There's no worse way to start off something at 2:00 talking about the Bankruptcy Code (Audience laughter). I'm going to try not to go too deep into the weeds on this, but there's several key provisions that are really very important to understand, and are not settled in the courts. IP assets—that's in bankruptcy, particularly trademarks and brands, which I think we're going to focus on a lot today. Section 365, the Bankruptcy Code is what we're going to be focusing on. By the way, the full text is in your outline materials, including some cases I'm going to touch on briefly. Then I'll also talk about cessation of use of marks briefly.

Section 365 provides generally that if a company goes into bankruptcy, the debtor, or the trustee for the debtor, has the right to assume or reject what we call an executory contract. A trademark or copyright, software license, are all contracts. Licenses are contracts, and executory generally means there's some reasonably substantial performance left to be had under the contract, as opposed to your buying assets. I pay you the purchase price, there's no continuing obligation on the part of the seller, and the deal is done. After the deal is done, that's no longer an executory contract.

Typically, your average trademark license that has quality control, has royalty payments, has minimum royalties and all that is clearly an executory contract, because there's substantial performance. In order to allow debtors to reorganize in the case of where they're licensors, they're allowed to reject such executory contracts, such as a typical trademark license or other outstanding type of license of the type I mentioned. However, there's a special provision that Congress enacted called Subsection 365 of the Code. That was enacted to provide certain protection for licensees of intellectual property, but intellectual property is not what you think it is.

It includes basically everything other than trademarks. In the statute, which is in § 101 subsection 35 of the U.S. code, determined that intellectual property is defined to include trade secrets, patents and patent rights and applications, certain things like plant varieties and mass works, which have to do with silicon chips, and works of authorship under Title 17, which are copyrighted. Trademarks are nowhere mentioned. If you look at the Senate Report from 1988 when this section was added to the bankruptcy code, what precipitated all this was a Fourth Circuit Case in 1985 called Lubrizol Enterprises.[1] There's a summary in your outline.

Basically this was a pre-365 end case, where the Fourth Circuit determined that a debtor licensee could reject any intellectual property license, that while the rejection of a license of an intellectual property would leave the licensee with a claim for breach of contract in almost every case, that's going to be an unsecured claim. So you're going to be at the very bottom of any distribution, if any, after secured creditors and judgment creditors who are way ahead of you in the hierarchy of how bankruptcy claims are paid out. Congress then enacted § 365, but according to the Senate Report, they specifically decided to not include trademark licenses because: "such contracts raise issues beyond the scope of [the] legislation. In particular, trademark, trade name and service mark licensing relationships depend to a large extent on control of the quality of the products or services sold by licensee." It depends on the circumstances, and varies from case to case. A trademark license that has no quality control by the licensor is what we call naked license. It can actually be attacked, and if the attack is successful, it vitiates the entire trademark rights, not just the license.

The Senate said, "Since these matters could not be addressed without more extensive study," it was determined to postpone Congressional action, and…"I'll just highlight these words, because it comes up in some of the cases, "to allow the development of equitable treatment of this said situation by bankruptcy courts." Now one could view that as referring to the general equitable power that bankruptcy courts have, which they do have. Other cases have read that in the context of saying, "Well yes, bankruptcy courts have equitable power, but constrained by the specific limitations of the bankruptcy code." In this particular case, § 365N.

Another relevant provision (then I want to talk about a few of the cases) is in § 365C, which comes up in a very interesting case, as well. I'm going to mention that the bankruptcy trustee or debtor cannot assume or assign an executory contract, if applicable law excuses a party other than the debtor to such contract from accepting performance. Most trademark, most intellectual property licenses or at least many, will typically have an anti-assignment, anti-transfer provision, but this doesn't say that you have to have that. The federal courts, since we're talking about bankruptcy, interpret this as applying federal common law. If you read the case law, the cases are pretty consistent, there are a few exceptions.

Under Federal Common Law, trademark licenses normally cannot be assigned, even in the absence of an anti-assignment provision. Why? They're almost like a personal service contract. The public has to be protected, the quality of the products have to be protected. There's this overriding need under trademark law legally to have quality control. To allow unfettered assignment flies in the face of this established law, which it is at least at federal common law. Irrespective of what State Law may say, by the way, even though a license is typically governed by whatever state Law says it is governed by.

How does this play out in the cases? Well, after the enactment of § 365N, we had a couple of cases that specifically said: "Unequivocally on its face, § 365N does not cover trademark licenses." Trademark licenses are not protected if the licensor goes out of business. Well, in a case like this, a company like Ringling Bros., for example, could pick and choose which licenses, trademark licenses it gave out, it could just terminate. It would be, the state would be liable for breach, but again you're talking about unsecured claims for money damages. Those initial rulings came up in the *Raima UK* Case, Northern District of California, 2002.[2] Again, this is in the materials.

The bankruptcy court of the Southern District in 2009, in the *Old Carco* case,[3] refused to extend protection to trademarks, because trademarks are not included in the definition of intellectual property under § 365N. Then we have a really interesting case in 2010, out of the Third Circuit, called *In re Exide*.[4] What happened at *Exide* was it found a license not to be executory and not, therefore, subject to rejection by the debtor. Why? Basically the trademark license was tied up as part of an overall asset sale. All the performance that was necessary was done by the time of the closing. The fact that there might have been some lingering oversight required in terms of the products was not something that the court deemed to be material list substantial. The entire assets of the business went with the rights, so the quality control was essentially there.

In that case, it found there was no executory contract, it was essentially full performance and it could not be rejected. There's a concurring opinion in *Exide* where the concurring judge picked up on the language in that Senate Report to say, "I believe the bankruptcy court also has inherent equitable power to say that trademark licenses, in the right factual circumstances, should not be able to be rejected and terminated in bankruptcy." We'll see that, that language becomes the basis for the New Jersey bankruptcy court's decision in the *Crumbs* case in 2014,[5] in a minute.

The next very significant case, which as you'll see in a few minutes, will now lead to a split in the Circuits, was the Seventh Circuit's 2012 *Sunbeam* decision.[6] Here, the Seventh Circuit said that, where a trademark license is involved, the debtor's rejection, whether or not it's covered by § 365N language, only absolves the debtor of an obligation to perform. It gives rise to a claim for breach under § 365G, which deals with what remedies the non-debtor entity could have, but does not rescind the underlying contract. What the effect of this is, is that the…Well let me just clarify, the bankruptcy court reached this decision on the general equitable grounds principle.

The Third Circuit didn't adopt the equitable principle specifically, but it read § 365G of the Code as the debtor creating a breach by rejection, but not rescinding the license. Section 365G says that, if the debtor rejects an executory contract it creates a breach of the contract. The Circuit Court said that the statute uses breach, not revision, and therefore, while the debtor was relieved of any affirmative obligations, in this case it was supposed to repurchase certain goods that were produced under the license, the license survived and could not be terminated.

Now think about what that means. In a trademark license, if you have quality control and all that, where do the royalties go, who is supposed to approve what if the debtor no longer has any obligations? Also, typically a licensor…You can address this too, Oliver, helps develop and maintain the market, for example, in brand advertising and the like. Interesting, *Bakeries Corporation*, 2014[7] was again a case similar to *Exides*, where an Executory contract was found not to exist because there was a perpetual license that was granted as part of an overall asset purchase agreement, where the transaction closed, and all substantial performance ceased.

The *Crumbs* case,[8] they went into bankruptcy and the stores all closed. In 2014, the bankruptcy court that was handling this case in New Jersey, dealt with whether licenses that the debtors had issued could be assigned. This deals with a different issue. What happened here, was there were a bunch of licenses that were out there. The debtors entered into asset purchase agreements to sell these licenses and rights to third parties, but the debtor itself did not reject these licenses. The purchaser comes in and petitions the bankruptcy court essentially for the same relief the debtor would have, saying, "Look, I bought these assets at a bankruptcy sale supposedly free and clear of all encumbrances. Now I'm going to be stuck with all these licenses."

The *Crumbs* bankruptcy court focused on the Senate Report and that concurring opinion I mentioned before, and focused on the equitable treatment language to extend § 365N protection to the trademark licensees themselves in this case. I've searched, and I haven't found that that case has been appealed. That's a significant result, at least in New Jersey and potentially in the Third Circuit. There's a case involving Trump,[9] there's always something involving Trump these days: The bankruptcy court in Delaware 2015 that dealt with bankruptcies of certain casinos down in Atlantic City. Of course, those casino operators were granted licenses from the Trump organization for operation.

Here, the bankruptcy court held that the trademark licenses were not assignable. In this case, the debtors were the licensees. They were not assignable without the consent of the licensor, because another provision of Bankruptcy Code 365C, says again that. You cannot assume or assign a license without the consent of the other party, the licensor in this case, if applicable law prohibits that. Again, federal common law has been found to prohibit that. The interesting thing, and a bit of a conundrum, is the statute says in the alternative, "Assume and assign."

The court here adopts what the Delaware bankruptcy Court that's called the hypothetical assignee. The debtor licensee in this case on the record said, "We just want to assume the license, so we can keep operating. We are not going to assign a transfer to the license." Nevertheless, the Delaware bankruptcy court assumed a fictional assignee, regardless. This is called the hypothetical test, which is not followed in every court and is just developing. Therefore, it denied the right or the application of the licensees to assume those trademark licenses in their entirety.

Last, I want to mention a case that just the other day was reversed by the First Circuit. This is a very significant development that now sets up an absolute split in the Circuits as to trademark licenses. The case is, the last one, from the bankruptcy of appellate panel to the First Circuit from 2016, *In re Tempnology*.[10] This case was reversed. The bankruptcy court denied protection to a trademark license under § 365N, because again, it's not specifically within the definition of intellectual property. The bankruptcy appellate panel, adopting the application of the *Sunbeam Products* case[11], found that implicit or otherwise § 365N should cover trademark licenses, nevertheless, a rejection constitutes a breach by the debtor or licensor, but it also still maintains the licensee's rights and remedies without necessarily terminating all the licensee's rights. However, on January 12, 2018, too late to get into the EASL materials, the First Circuit resoundingly reversed. Not only did they reverse, they also resoundingly rejected the *Sunbeam* decision, setting up a split in the Circuits.[12] I'll just read you the short provision here. The Court said: "We conclude that Section 365N does not apply to Mission's right to be exclusive distributor of Debtor's products, or to its trademark license. Unlike the BAP and the Seventh Circuit, we also hold that Mission's right to use Debtor's trademarks did not otherwise survive rejection of the Agreement."

Why did the Court say that? It looked at the nature of trademark licensing agreements. It said, look, trademark licenses require that the trademark owner, here the debtor, monitoring and exercising control over the quality of the goods of services that go to the public, including the right to review and approve all uses to avoid a naked license situation. The Seventh Circuit's approach would allow the non-debtor to retain the use of the debtor's Trademarks in a manner that would force the debtor to choose between performing executory obligations arising from the continuance of a license, will risk the permanent loss of its Trademarks, there diminishing their value to the debtor.

With a Circuit split, we have no idea where we're going. This is a huge issue to be considered. I'm sure now there's going to be jurisdictional gerrymandering. We don't know how all the Circuits are going to address this issue. At some point, Congress may take it up, there have been one or two bills introduced in the House that haven't gotten that far to add trademarks to the definition of intellectual property under § 365N, but we'll see.

Do you want me to talk about the Lanham Act Briefing?

**IRINA TARSIS:** Yes.

**BARRY WERBIN:** Okay. Let's talk about what happens with trademarks, and Oliver will continue this discussion, when you stop using them and what that means. The federal trademark laws in the Lanham Act has a presumption, it's rebuttable, but it's an initial presumption that non-use of a mark to offer goods or services in the market for three consecutive years raises a presumption of abandonment. What abandonment means, it doesn't mean you no longer have an intent to abandon, or you have an intent to abandon. The key is whether the trademark owner has an intent to resume use. Now that's the Lanham Act and this differs from trademark common law, which had focused on an intent to abandon. I think it's a much better construct, because if you think about it, an intent to abandon, anyone can say, "While I don't intend to abandon FAO Schwartz, but I have no intent to resume use."

Now, in the FAO Schwartz' case, that's different, but we can think of a lot of brands. I remember growing up going to Horn and Hardart. Okay, how many remember that? There's a few of us in the room still. Well it was, what was it, 57th Street or something like that, and you'd put your nickel and a quarter in and you'd get your hot soup. Well, that was a famous brand but eventually they all closed, it was gone. I'm sure the owners didn't have an intent to abandon but they didn't have an intent to resume.

The intent to resume use is the focus here. This is all factually specific, there can be a lot of legitimate reasons where a trademark owner temporarily, or maybe even for a period of years, ceases use of a mark. I'm going to give a case study at the end of this, and it's actually really instructive and fascinating. It could be because of bankruptcy situations, it could be because of intra-market situations, shortage of goods and supplies, regulatory issues, and things like that; these kinds of legitimate factual situations can lead to outcomes you're being able to overcome, this presumption.

We have some cases…by the way, the concept of Use In Commerce is, while it's very liberal, really has to be some legitimate use and not just token use. I get my brother-in-law to buy a few things from me, or I just put out some promotional items for free, that's really token use. That's not Use In Commerce, but it doesn't take much, and an example. There's a case recently, where a church was able to survive this argument by having shown they sold and shipped a couple of baseball caps with their trademark slogan on it. That was held sufficient to meet the In Commerce test. It was more than trivial.

A couple key cases here on page 11 in the outline…I think it was page 11 anyway, that I've cited includes the following, Mattel was involved in a challenge to its crash dummies' trademarks.[13] Mattel had bought this company, and the Circuit ruled in 2010 that while Mattel had not yet started selling or reselling products on the crash dummies mark for something like a six-year period, it intended to resume use after it had acquired the brand. There was a lot of time needed to retool production in the factories, research and develop new markets and other market and business reasons that clearly supported its business and marketing plans to resume use.

The Ninth Circuit, in 2014, in the *Wells Fargo* case[14] also found no abandonment where the financial services company continued to use the mark in marketing and customer solicitation presentations, even though there was an intention to ultimately rebrand the company. A lot of times you see companies using almost like a secondary brand in transition, to maintain that consumer goodwill. That's another thing to keep in mind, until you can enter into maybe new third-party licenses, keeping that goodwill out there and still using it as a true trademark.

Fascinating case, which has gotten a lot of flak, involving zombie brands, which are brands that are dead and then are resuscitated, came out in the Northern District of California in 2016 involving Macy's.

Again for those alta cockers in the room, Macy's had a lot of these affiliate brands, Abraham and Straus, my office used to be across from…what was that one?

**UNKNOWN SPEAKER:** [Inaudible]

**BARRY WERBIN:** No, B. Altman's okay, but that's not in this list. Abraham and Straus, Filene's, Jordan Marsh, Robinson Books etc. What happened is the Strategic Marks were in the business of buying up zombie brands.[15] They got sued for trademark infringement. Of course, the response was abandonment. California District Court said, "Yes, all these retail chains were closed permanently, ceased doing operations." Macy's was still selling t-shirts with the names of some of these brands on the t-shirts. Now for those of you who practice trademark law, usually that's what we call ornamental use. Often that's not sufficient to establish your trademark brand unless you are actually selling other goods as services that are legitimate.

In that case, ornamental use really relates to your primary goods and services that are still in Commerce. Nevertheless, the California court found there was still substantial goodwill in these relatively famous retail brands that they should be deemed to survive the closure, that the use on the t-shirts therefore was not merely ornamental. Now I found out this morning that Macy's subsequently settled this case. It's confidential, but apparently, they ceded under an agreement, I'm sure for payment of money to the defendant, six of these store brands, is in exchange for the defendant to establish, I believe, it's a web store to keep the brands alive.

Now this is a very smart move, whether Macy's did this, really planning this to extract money and using this as leverage, we don't know, but it's a very interesting strategy to keep your brand alive. Again, the concept is that you can still license it because under trademark law, the goodwill and the value and rights of a trademark, and you're always to the benefit of the licensor.

I think that's it.

**OLIVER HERZFELD:** Great. Awesome.

**IRINA TARSIS:** Thank you.

**OLIVER HERZFELD:** I'm just going to add to what Barry said that...

**IRINA TARSIS:** Oh, do you want me to introduce you? Better?

**OLIVER HERZFELD:** I was going to do it before my presentation.

**IRINA TARSIS:** Okay, sounds good.

**OLIVER HERZFELD:** You can introduce me. I was just going to add to what Barry said, that if you ever get tired of practicing law, there's a lot of money to be made in dormant brands. Barry gave some examples where they were opposed, but there are a lot of examples where people were successful in scooping up brands that were no longer used. If you are old enough to remember, there used to be a brand, White Cloud, that was a separate brand, and then it became Charmin Ultra, and they stopped using White Cloud. Then some time elapsed and someone had the good idea of scooping up that dormant brand. They licensed it to Walmart, so now it's Walmart's house brand for toilet paper, and they're making a lot of money on that.

If you go to CVS down the block, you can buy Neoprene, and they didn't create that brand. That was a brand that was owned by someone else and became dormant and someone scooped it up and they licensed it to CVS. There's a lot of money to be made, Victrola, there's many examples. My firm, that I'm going to be introducing in a minute, so you don't know who I am yet, we represent brands, and at one point we represented Frusen Glädjé, an ice cream brand. How many people in this room even remember that ice cream brand?

It's the most amazing story, you could look it up on Wikipedia. I think they were sold from Kraft General Foods to Unilever, and Kraft General Foods said, yes, they were included in the sale, and Unilever said, no, they weren't included in the sale. Neither of the two parties can agree who owns it, and neither of them wants it. Someone else came up, North American brands came up, scooped it up, didn't have any opposition for these other cases that were oppositions. You have to do some legal battles before you can secure the rights, but for this one there was no legal battle at all because neither party, the seller or the buyer, wanted to have anything to do with it.

You can scoop up brands and license them and that is a good way to make money.

**IRINA TARSIS:** All right, excellent. Our second speaker, Oliver Herzfeld, is Chief Legal Officer at Beanstalk, a company that helps brand licenses and consults with companies such as AT&T, Proctor & Gamble, about various brands. We are hoping that...There is an article that Oliver co-authored in your materials and I just checked, the materials are all available on our EASL website, all the materials that we are referencing. I hope you either pull them up as are discussing them, or have a chance to look at them retroactively. Oliver will talk about what licensors and licensees have to do visibly with changing status of brands.

**OLIVER HERZFELD:** I work for Beanstalk, it's a trademark licensing agency. We do all types of things, but mostly we represent large brands, and the large brands license out their trademarks, and we have thousands of licensees. Just as an example, with the U.S. Army, we have over 200 licensees in the U.S. Army licensing program. A lot of the licensees are large brands that you can imagine, but a lot of them are also very small, many times they're veterans that set up a shop in their garages, and they procure a license for the U.S. Army. There's hundreds of them, and so licensees going bankrupt is a fact of life, and that's what we have to deal with every day.

There's going to be a little bit of overlap in what Barry said, but that's perfectly okay. Bankruptcy and trademark laws. The interesting thing is in the Lanham Act, the trademark act, there's absolutely no mention of the word bankruptcy. In the Bankruptcy Code, there is no mention of the word trademarks. Just the same, as Barry said, trademark license agreements are very often deemed to be assets of the debtor, and they're subject to the provisions of the Bankruptcy Code. The two most common forms of bankruptcy are Chapter 7, so called liquidation bankruptcy. That's when they take the bankrupt entity, they chop it up, and they sell it off in pieces and they try to make as much money as they can and use that money to pay off the creditors.

The other type of bankruptcy that's most popular is Chapter 11. Chapter 11 is a reorganization bankruptcy. That's when the creditors are paid off from loans, asset sales, stock issuance, and other current revenues. It's all subject to a plan. The plan has to be voted on by creditors and other holders of interest, and it has to be approved by the bankruptcy court. Sometimes Chapter 11 bankruptcies fail, and they're not able to reorganize, and in those instances the Chapter 11 bankruptcies can be converted to Chapter 7 liquidations, and sometimes Chapter 11 bankruptcies are intentionally used as liquidation mechanisms, and the reason for that is because when it's a Chapter 11 bankruptcy, the bankrupt company gets to choose its own trustee.

In a Chapter 7, the trustee is appointed by the court, so if you can choose your own trustee you have a little bit more control over the liquidation. Sometimes Chapter 11 is used as a method of liquidation. Okay, executory contracts, I can barely say it. The term "executory contracts" are not defined in the Bankruptcy Code. The word executory is not defined anywhere in Bankruptcy Code. As a show of hands, does anyone in this room ever use the word executory outside a conversation of bankruptcy? I've never heard anyone use the word executory, except for when they're talking about the Bankruptcy Code.

**BARRY WERBIN:** We can't even agree on how it's pronounced.

**OLIVER HERZFELD:** I'm struggling. Okay, you got me there. Caselaw says, as Barry mentioned, that contracts are generally where there's additional performance that remains due from both parties, and in license agreements many times there is performance that's due from both parties, the licensees require to preserve quality requirements, and to pay royalties and other things. The licensors require to maintain the quality control. Also, the licensor is required to refrain from suing the licensee for trademark infringement, so those are the types of things that are the ongoing obligations, and so most trademark licenses are deemed executory.

My clients are all in the business of brokering these deals, and collecting money, and when a licensee goes bankrupt, the first inclination that they have is to try to terminate the agreement, and try to collect all the royalties that are due. But in the Bankruptcy Code, there's an automatic stay that prohibits you from doing either of those things, and so if you try to do either of those things, I have to remind my clients that all the time, you are exposed to the risk of being held in contempt of court by the bankruptcy court. It's not a good idea to do that.

The idea behind an automatic stay is that it permits the debtor to have some time to figure out a repayment plan, or reorganization plan to kind of get its affairs in order. If you look at the standard trademark license agreement, you will very...and many other types of agreements as well, but certainly in trademark license agreements, you will probably see in many instances, a provision that allows the licenser to terminate in the event of bankruptcy. I would have to guess that there's been an entire ocean of ink, and an entire forest of trees that have been devoted to these provisions that give you rights to terminate in the event of bankruptcy, and they're all completely unenforceable. They're so called ipso facto provisions, and they're non- enforceable.

Why do people continue to include them in the agreements, besides the fact that they might get paid by the page? I once asked that question to a bankruptcy expert, and his response was, "Well, right now the law is that you're prohibited from enforcing it, but tomorrow the law can change." I'm not buying that explanation, so there we are. If you get in a situation where a licensee goes bankrupt, do not try to terminate the agreement, and do not try to collect your royalties during the automatic stay.

In a bankruptcy, the trustee in bankruptcy has to assume or reject each contract. Assume means you want to continue performing under the contract, then you have to accept all of the benefits, but also all of the responsibilities and render all of the performance. If you reject it, it's deemed terminated, and you're excused from any further performance. In a Chapter 7 situation, the trustees must elect whether to assume or reject within 60 days of the bankruptcy. Chapter 11 trustees have a little bit more time, they have to wait until the confirmation of the plan of reorganization. It's usually at least six months, it's sometimes over a year.

Many Chapter 11 trustees make the decision much earlier, in particular in connection with a pre-confirmation asset sale, they can decide to assume the contracts much earlier. Many times when a Chapter 11 trustee makes a motion to assume, they will often include a provision at the bottom that says any contracts that are not assumed should be deemed to be rejected, and if a trustee does not assume, and does not reject, then the licensor can file a motion with the bankruptcy court, the trustee and bankruptcy court to make a decision one way or the other.

Now, we're going to go through the four permutations, and the four permutations are what happens if the licensee wants to assume, and the licensor consents? What if the licensee wants to assume, and the licensor objects? Then the reverse, what if the licensee wants to reject, and licensure consents, and the licenser rejects. We're going to go through the four permutations. If the licensee in default, wants to assume, it has to do three things. It has to cure, and provide adequate assurance that it will promptly cure the defaults. Under this number one, the licensor has an opportunity to determine when the licensee tries to make a motion to assume, whether it includes all the correct amounts that are in arrears, both pre and post-petition, and whether they have an ability to cure, and to make proper assurance that they will continue.

Number two involves not the creditor, but involves non- creditor parties. They have to make a compensation to non- creditor parties of any monies that are owed, pecuniary losses, I probably didn't pronounce that right either, but it's basically monetary losses that's resulting. How does that impact the situation in a licensed situation? Point number one, we'll take it step-by-step. Most trademarks licenses are one sided. The reason for that is because trademark licensors only have one shot at their brand, and if they don't protect themselves, it's not like a 50/50 partnership where it's equal. The trademark licensor is giving the third party the right to use their brand, and if they mess it up the trademark licensor doesn't get a second shot, so they have these one-sided agreements.

The second thing is that in their agreements that are one- sided, they have hefty provisions regarding indemnification, and collections, and legal fees. Amongst those provisions, you'll frequently see provisions that include rights to collection of legal fees in the event of bankruptcy. That's where number two really comes in, because you have a shot at getting your legal fees, in terms of pursuing the legal fees and bankruptcy, all of those legal fees can be potentially recouped under section number two. Unfortunately, there's a split in the Circuits as to whether you can actually do that. Certainly the potential is there, but for example, the Third and Ninth Circuits have ruled yes, the First and Eighth Circuits ruled no, so you at least have the potential to recoup those legal fees, but it really depends on the Circuit.

Number three is to provide adequate assurance of future performance, and again, if the licensor feels like they're not receiving adequate assurance, they can object. Okay, so that's if the licensor consents, they get 100 cents on the dollar, and they have to get assurances that everything is secured, and they're going to get all their payments. The flip side is what if the licensee wants to assume, and the licenser objects? This goes back to some of the things again, that Barry talks about. The hallmark of trademarks in general, is that the trademark owner has to control the quality of the goods, that's what it's all about. One of the main things is to protect the consumer. The consumer, when they buy a trademarked good, they want to know that it's going to stand for something, and it stands for a certain standard of quality, and the licensor has to control that.

If the licensor fails to control that, it's a so called naked license, and the fee repercussions of engaging in a naked license are very severe. You could lose your trademark rights, not just a hypothetical thing. There was a recent case where Eve's Bridal, it was this chain of bridal stores that were owned by relatives of each other, and they trusted each other because it was their cousin, or nephew that was controlling the other store, and that gave them each the right to use the name Eve's Bridal. It was a naked license, they didn't have any quality control provisions in the agreement, and it came to a trial and they lost the rights, they were deemed abandoned and they lost the rights to their trademark.

This is really important, and to prevent the result of potential abandonment of your mark, and make it licensed, the licensors may object to a licensee that's seeking to have it assumed, and there's four different grounds that they can base it on. The first ground is they can say the license agreement was terminated prior to the bankruptcy filing, but there's some nuances to that. The nuances that the trademark agreement really had to be terminated prior to the filing. It's kind of like one of these zombie movies, you really have to stab the zombie, cut of its head, and completely burn it to a crisp.

If the licensee breached the agreement, and then the licensee filed for bankruptcy, and then after the filing for bankruptcy you give them notice of breach, it wasn't terminated. They may have breached, but they didn't terminate. If the licensee terminated before the bankruptcy filing, and you gave it notice for a breach and then it filed for bankruptcy, but there was a cure period in the agreement because you were generous when you were negotiating the agreement. You gave them 10 days, 30 days to cure the breach. They filed for bankruptcy, and they were still within the cure period, wasn't terminated. Has to be really terminated in order for you to exercise the right to object on ground number one. Ground number two is that the license agreement is otherwise not executory. As Barry said, most times and most instances, a trademark agreement is executory, but there are some instances like there was a case in connection with an asset purchase agreement, and the licensee received a perpetual, exclusive, and royalty free license.

In that case, the court looked at it and said there's no more royalty payments due, there's no more other obligations that are considered material, so it's not executory. They were able to object on that basis. The third basis is the licensee cannot possibly fulfill its requirements for assumption. In other words, the licensee has the burden of proof, the licensee wants to assume, it has to fulfill this burden of proof that it's capable of curing all of its defaults, assuming the agreement, and continuing going forward. If they cannot rise up to that level and really show that they're able to cure their defaults, pay what's owed, and go forth and sin no more, than you can reject on that ground.

The fourth ground is really the most interesting one. The license agreement may not be assignable, or assumable. It's after lunch time, you might be sleepy, so I ask you to wake up for this one because you really have to follow this language here. The Bankruptcy Code says that a debtor prohibited from assuming an agreement without the consent of the other party, when the debtor does not have the explicit right to assign it. It is not allowed to assume it, unless it has the right to assign it out under "applicable law" that Barry talked about, but it's a little bit easier sometimes when you see it in writing in front of you, and bolded out.

What is applicable law? Again, the Bankruptcy Code doesn't define trademark, doesn't define executory. It doesn't define what applicable law is. What the courts have done is they said that applicable law is basically state law and federal common law. Then, you have to figure out, was the license agreement assignable under state law and federal common law? The courts have come out to different conclusions. One court said it's not assignable, and the basis they gave is that an assignment is personal, and a licensee is thus not freely assignable to a third party because it's personal to the licensee. That's the rationale that one court gave. Another court reasoned that copyright and trademark licensors share a common retained interest in the ownership of their IP, and that interest would be severely diminished if a licensee were allowed to sub-license it without the licensors' permission.

Another court came from different rationale, but came to the same conclusion, not assignable. Other courts have said it is assignable, and in many of those instances the courts didn't really go into a deep analysis of what was meant by applicable law, and how it applies to the situation. That's really a little bit frustrating, but there you have it. You have a split sometimes among the courts as to whether something is assignable. That's the fourth ground, that you can reject a licensee that's seeking to assume.

The next two are a little bit easier. If the licensee seeks to reject the contract, and the licensor accepts, that's great. It's treated as a breach of contract, and the licensor is treated as an unsecured creditor and has to stand in line with all the other unsecured creditors. It gets just cents on the dollar, when all is said and done, and that's basically how it sorts out when the licensee rejects and the licensor consents.

The last of the four permutations is when the licensee seeks to reject, and the licensor objects. I could basically sum that up as good luck. A judge will frequently not overturn the decision that's made in good faith to reject a contract, that's really one of the cornerstones of the Bankruptcy Code. Now that we went through the four permutations, we can talk about what happens after a bankruptcy filing. A licensee is permitted to continue exercising its rights under a trademark license agreement up until the point that it assumes or rejects the agreement. If it rejects, it can no longer get the benefits. If it assumes it and is able to fulfill its burden of proof, then it continues under its agreement.

During that period of time, the licensee is obligated to continue paying under the agreement, and it's really a different situation than the bifurcation of either 100 cents on the dollar, or zero cents on a dollar, or a few cents on the dollar if you were rejected. It's a different rule that applies, the Bankruptcy Code requires the licensee to reimburse creditors for the benefit they received, and that usually means that the licensee must pay all post-filing running royalties, and the way it's implemented is the licensee just might pay what its owed, but if it doesn't pay what it owes, the licensor can make a claim, and it's a priority claim under bankruptcy. It's one of the highest priority claims, and you usually end up getting 100 cents to the dollar for those amounts, post-filing, or if not 100 cents on the dollar you get very close to that, because it's one of the highest priority claims, it's called an Administrative Claim.

That's it for me. Thank you very much..

**IRINA TARSIS:** Bankruptcy is really one of the ways a company has to rethink its use of the trademarks, and what brands to sell off, or what assets are worth holding onto. Just to remind you, as I understand, Barnum & Bailey is a privately owned company, it's incorporated in Delaware. Its owners did not declare bankruptcy. While the show closed, and certain assets split, I know that for example, trainers and tigers went one way, and elephants were put into the designated conservancy space, and clowns got jobs in different circuses, but there are still certain assets that remained, and we know that the trademarks are alive and are being enforced. We'll talk about the financial aspect of these remaining things on the table, in the room, in the vault, when the doors are closed to the public and the owners are thinking what do we do with what's left.

My question vis à vis the Greatest Show On Earth, yes, the trademark is still alive, and it's being enforced. Is there intent to resume use?

**BARRY WERBIN:** There's a lot of things you can do, even if it's not you, the original owner of the brand doing it. Licensing is the primary way you do it, because the licensor can indirectly keep marks alive and the brands alive by licensing it to others, because the goodwill, i.e. the trademark rights, and always upstream to the benefit of the licensor. I think Ringing Bros., even in the Kid Rock case,[16] that they actually do have licenses to other circus type acts, so that's something they can do to regional circuses, and local circuses. They have all types of merchandise, which I think Oliver can address as well. You can keep all the ancillary markets alive, and that of course is where merchandise huge amount of value is.

**OLIVER HERZFELD:** You can keep a brand alive by licensing, but a bad license, while keeping the brand alive, may do damage to the value of the brand. There is a little bit of a tightrope there.

**BARRY WERBIN:** One thing I wanted to mention, that when you license a trademark, the trademark licensor gets the benefit of the use by the license, that it can benefit for itself as a use in commerce, but there was just a recent decision that said in the opposite direction it doesn't work, so a licensee recently tried to say that it can get the benefit of the use in commerce by the licensor, and the court rejected that. It might have been the TTAP that rejected that.

**IRINA TARSIS:** The cases where Barnum & Bailey sued for trademark infringement, they sued for example, a bar in New York that tried to call itself the Greatest Bar On Earth,[17] and the court in that instance said that the trademark in general is pretty thin, and there is no necessarily overlap or competition.

**BARRY WERBIN:** I think, you know, the Macy's case is an interesting one, because again they settled that. There's a lot of commentary out on that decision, that it was really an outlier and kind of flies in the face of the whole intent to resume. There was clearly no intent to reopen these retail chains under these names, and selling t-shirts, which really was ornamental use, it's not really going to keep your brand alive. Maybe for some short period of time if you're transitioning, but I think that case in my own opinion is a stretch, but it won't be appealed since they settled it.

**OLIVER HERZFELD:** As I mentioned before, again, playing off of Barry on the dormant brands, sometimes you'll be able to scoop it up and you'll be able to license it off without a fight. That was the case with Frusen Glädjé and others. Many times you are able to procure a trademark, and then the prior owner comes out of the woodwork and you get into a fistfight, and it lasts for around three years, and then finally you merge, and you can license it. You can still make money that way, but you have to go through that fistfight first.

**BARRY WERBIN:** Another way, sometimes where you get Ringing Bros., but if you're dealing with products, you may still have a secondary market for support and selling parts and things like that, which in some cases you might be able to establish continuing use in commerce for limited markets, and limited products or services, but that's another way sometimes to keep it alive.

**RICHARD GERING:** The other thing I would add in respect to zombie brands is that a brand can be dead in some geographies, and not dead in other geographies, especially when you move into the third world countries, older brands and older products can be alive and well and doing very well. They're smaller markets, and those brands and those products may be old, dead, tired, declining in larger markets like say Western Europe and the United States. You got to think wider and broader than the country in which you are.

**OLIVER HERZFELD:** All trademark rights are territorial.

**BARRY WERBIN:** I want to just make one point because we're talking mostly about trademarks, but obviously there's copyrights and patent rights, and trademarks are unique, because U.S. law, and most countries at some point require use to either get registered in the U.S., Canada, and some other jurisdictions, although Canada's changing, and many other countries, while you can get a registration without use, a marked registration becomes subject to attack for cancellation for non-use if there's no use, usually between some three to five year period. Copyrights and patents don't require use, they're really passive IP rights. They're a right to exclude in a sense, in a case of copyrights and patents that are protected by the U.S. constitution, and trademarks are not. Trademarks are really in a separate bucket, and that's another reason why Congress thought it was too complex to consider whether it should be part of 365(n) or not.

**IRINA TARSIS:** When somebody said, what's your favorite brand, I like the brand Knoedler, and I floated the idea of having an award for the art lawyers, the Knoedler award. If you don't know, there's a very famous gallery that closed after being accused of selling forgeries, and they were sued more than a dozen times. I think Knoedler is pretty great.

I was trying to figure out if we can award Knoedlers. The recipient of the Knoedler in 2018 is an established lawyer who had done a lot for art law, and I was told it was a terrible idea, nobody would want to get a Knoedler. That would be insulting, rather than encouraging and uplifting. I'm probably tone deaf, I think there is still something to be said positive about Knoedler.

We have not been awarding that yet, but this idea leads me to introducing our third speaker. Richard Gering. He is not a lawyer, so pay attention. He's going to talk about numbers. How do we actually value the assets that are left on the table after a life changing event, such as closure of a business, or lowering of the curtains. He provides consulting and expert witness services to clients with emphasis on economic analysis and damages, and hopefully he'll tell us why Knoedler is not worth much, while FAO Schwartz is still quite valuable.

**RICHARD GERING:** The only thing worse than listening to bankruptcy is numbers. When asked what's your favorite brand, I grew up in South Africa and I was thinking about the circus I went to growing up. I just Googled it 10 minutes ago, the first show was the 21st of January, 1882. I don't know if that's before or after the Greatest Show On Earth, but it closed in my childhood. There you have it.

Taking a step back, and not just focusing on just one type of intellectual property, I want to talk very briefly about the main ways of valuing property, intellectual property, and then to get into some specific areas that are challenges, and some pitfalls when we're dealing with companies, brands, and stress that may be pre-bankruptcy or post-bankruptcy that may be still operating, or may be just winding down. What happens in that world.

The three classic ways of valuing a piece of property is the cost approach, the income approach, and the market approach. They are fairly intuitive, at least to me. The cost approach focuses on how much did it cost to either make this thing, or replace this thing. Typically, in IP, it's the least effective, least useful. The data and the documents that you would collect in order to get the cost approach, or to understand it may be incredibly useful for counsel doing other things in these areas, such as, is your IP still protected, are you still using it, is it being licensed and are you collecting the royalties?

You'll find in this, there's a very important need for an interdisciplinary approach, and much of the information that an evaluation person will be looking for may have been collected, or will be useful for other people on the team. The second approach is the income approach. If you think about that, it's basically what is the income being generated by this piece of property? If you think about it in a physical sense, you have an apartment, an apartment generates rent. After the expenses for the rent, how much money is left over? What is the free cash flow? What are the profits that are left over attributable to the property, and that helps you determine the value?

In order to understand that approach, you really need to understand the nexus between the IP and products and services that are being used by the company. IP is a much harder exercise than in the world of physical property, we're looking at the revenues that a piece of physical property generates, and the cost associated with that physical property is often much more obvious. The third one is the market approach, and I think when most of us intuitively think of valuing something, we think of the market approach. What did something the same or similar sell for? The same or similar in a real estate context might be much easier to discuss and understand, than in an intellectual property context.

You need to there understand what is comparable. You need to; understand it from a technology perspective. Is it comparable technology? You need to understand it from a product perspective. You need to understand it form an industry perspective, and you need to understand it maybe from a geographic perspective. All of those things will affect whether you can use a piece of data from example A, and apply that example to B. Of course, in the world of IP and the world of technology, timing's important, maybe a very comparable agreement, but it may be 10 years ago, and the world from an economic, business, or competitive sense was very, very different. Think about in the world of electronics for example, or in the world of how sound, pictures, and images are shared and produced. Think of the dramatic changes that have occurred in the last 10 years.

Having a license agreement or a transaction that's exactly on point, but 10 years old, may be irrelevant or useless. Those are sort of the three overarching ways on how to quantify and how to value things. The devil is always in the details, and what I want to focus on is really taking a step back, and talk a little bit about the types of documents and issues, and the problems. When I'm involved in a situation like this, I ask three very simple questions: What are we valuing? Who owns it? How was or is it being used? That's my starting off point. Those are very simple questions that have very, very complicated answers. You're dealing with a business in many cases that is under some stress, and so what does that mean from a business perspective?

It means good people have left, it means documentation is not what it should be. It means things that should have been kept confidential may have been shared unbeknownst to you, and that can change the value. It means deals could have been cut that could have a legal implication of transferring an asset. Business entities are always very complex, and the IP may not be held in the right entity, and you may not have the time to move it to the correct entity that you need to move it into. Again, understanding what we're valuing, who owns it, and how it has been used is vital.

The other important thing is that in most instances, there is either technology that goes along with, for example, patents or copyrights. There's often confidential information that gets used in conjunction with processes. There's the in- place labor force that has tremendous value to a licensee, or to a buyer of a piece of intellectual property. Those assets may have already exited the business, or be devalued in some kind of way. One needs to get one's arms around these things very early. The next threshold question is, are you doing a transaction before bankruptcy, or after bankruptcy? Clearly if you'd doing it after bankruptcy, you have to operate within the Bankruptcy Code.

The good news is there's a judge involved, there's a procedure involved. It has to be more of a public sale, a public auction. On some level you feel you may be getting the better value, but you're getting the best value as of that date, and typically I would say if you sell a piece of property in bankruptcy, you're going to get a worse value than if you had sold it six months or a year earlier. Probably at that point in time, you would have had more people in place, you would have been operating more efficiently. You would have had more negotiating strength and power. These sales take time, and time is not your friend when you're in bankruptcy. You could have the perfect asset, but run out of money, and run out of time, and then the price changes dramatically.

The other thing that's very important with IP and IP selling in this context is that when we think of valuation classically, we think of a willing buyer, and willing seller selling a piece of known property where the information is known. That's exactly what's not happening. You don't have a willing seller in many cases. The buyer is looking to exact as much as they can. There is tremendous duress, even if it's not forced by the potential buyer. What you're looking for is not some hypothetical buyer to buy something at some hypothetical price. You're looking for a strategic buyer. A strategic buyer is somebody who would fit very cleanly, and really wants your property, and will give you a better price. That's the good news.

The bad news is strategic buyers are few and far between. They happen to know that they are a strategic buyer, which gives them the leverage that you do not have. The valuation person comes in, and needs to acquire and get certain types of information in order for them to help you. They need to get financial information, sales plans, sales histories. If the thing's been licensed, they need to see royalty reports. They also need to get projections to the extent that the business had projections, and they need to get business plans and brand plans. When you sell this property, the chances are you're selling it to somebody else who's going to use it differently.

You need to really understand how this property is being marketed. Why there may be some people who want to buy the assets of Barnum & Bailey who are circuses, the majority of people who are going to be perspective buyers are going to be in different areas, different industries, different channels, maybe different geographies. You need to understand how these assets have been used, and you need to be creative in thinking about where they can be used, and totally different ways. I do a fair amount of work in pharmaceuticals, which is very different, but there were a number of very successful pharmaceutical products, for example, that were failures in totally different markets. You have to think in those ways. One was a failed heart medication, and another one famous hair products, was another failed heart medication, which is a reason why when you take those blue pills, they want to know if you have a heart condition, and that's a separate point.

It's all got to do with the flow of blood to-and-from. You need to think in very creative ways, because the way that the IP was used initially may be very different to how you can think of monetizing it on the back end. What are the problems that you face? Timing, there's cost, there's knowledge, or more precisely lack of knowledge, because in order to understand technology and how it works with a business, it's less of a document intense of exercise, and more of a people intensive exercise. Chances are those people have left. You need to get plans, strategies, you need to understand how things actually were used, and actually were licensed which may be very, very different form the legal documents.

Companies that have subsidiaries, companies that have franchisees, companies that have joint ventures, when they get into financial stress, one of the first thing that happens is that the control they have on their business partners starts to erode. As that control erodes, de facto actions can cause legal complications, or they can cause value complications. I cut a deal with somebody because they really needed it, where I granted them a free license, because it made perfect business sense to me and my little corner of the world, may have taken one of your crown jewels and revalued it in the market at the same time, and just trashed the value of your company.

Understanding how things actually have happened. The other thing that's very important is to understand what happens when businesses also get in stress, they often have lapsed payments. Many of these agreements could have minimums. There's the issue of assets being used, there's the issue of have you made your payments to the United States Patent and Trademark Office, or wherever it needs to go. You may have a piece of IP that you both are using that is incorporated in one of your products, and then you sell it. You may not be making your payments where you are the licensee, and that can affect your brand, where you want to be the licensor, understanding what's actually happened in the business, and how the stress under which the company has impacted the operations of the company.

The last point is once operations cease, then all these problems are on steroids. You have caretaker people involved. The issue of restarting, and leverage with respect to negotiating with people becomes terribly difficult, because as they say, there's blood in the water and everybody can smell it. Life is dangerous.

**IRINA TARSIS:** All right. Thank you.

There weren't any numbers in that presentation.

**RICHARD GERING:** I was sparing you that. That's not true, I said January 21, 1882.

**IRINA TARSIS:** Do you think Kid Rock rushed into naming his tour the Greatest Show on Earth? He should have waited two more years, three years after Barnum & Bailey's Greatest Show on Earth ended, and then he would be fine, and the use ...

**BARRY WERBIN:** He got a lot of free publicity, that's for sure. A lot of times that's a positive byproduct, even of a lawsuit, which I'm sure they'll settle. It's just a question of money, but if you settle it and he gets the right to use it, it's kind of a win-win for both. There's plenty of money on the music production side arguably, and the publicity that he arguably got over it might be worth it. It's hard to say.

**RICHARD GERING:** Someone could have done a calculation on whether Barnum & Bailey's lawyers were getting a fight when they were getting away with it. Again, how much energy were they going to put into this fight? Given all the energy, equals publicity for him.

**OLIVER HERZFELD:** Waiting two years wouldn't get him completely free and clear, as Barry explained, because it's based on intent, not a ticking of a clock.

**RICHARD GERING:** There's another big problem also, the longer you leave a mark or a brand dormant, the less of a linkage there's going to be, and the less value there's going to be. If you waited two years, and then you came out and said I'm doing a tour for the Greatest Show On Earth, you wouldn't be getting the leverage from the Greatest Show On Earth either.

**IRINA TARSIS:** I brought a prop. It is a container owned by Ringing Bros. and Barnum & Bailey, at I suppose the last show. Was this produced by a licensee for use exclusively, or can we discuss what this might be, and whether more of these are being produced somewhere?

**BARRY WERBIN:** Normally they're not going to produce, this is going to be a licensed product. The value here is not the thing. It's the art on it.

**IRINA TARSIS:** It has the trademark on it.

**BARRY WERBIN:** Is there a mark on the bottom? I can't possibly read that.

**IRINA TARSIS:** There's a trademark.

**OLIVER HERZFELD:** It might say "under license" at the bottom. That's what I was trying to get at. We're showing our age here today.

**RICHARD GERING:** Is this Barnum & Bailey? It's in Spanish, but it seems to be.

**OLIVER HERZFELD:** Interesting. It's most likely produced under license because they probably weren't in the business of making it themselves, whereas Disney makes a lot of the stuff itself because that's part of its business model wringing out every last penny, and they're able to source and sell their own products.

**BARRY WERBIN:** That would typically be the case, and they may get an assignment for example, of copyright in the design and the art. Sometimes that could be assigned outright as maybe a work for hire, or an outright assignment, maybe not. If it's in your core business, almost everything is licensed. In the apparel business, very few major designers or major labels make their own stuff. Almost everything is sourced out over licenses these days, and into different divisions, whether it's outerwear, women's wear, casual wear, sportswear, etc.

**RICHARD GERING:** What it probably is, is that the underlying product is made for many different people, but the art that goes around it is unique to the specific licensor.

**OLIVER HERZFELD:** That's a very good point, that's very common in the toy world where you just repurpose things.

**BARRY WERBIN:** The other thing I just want to go back to, your comments, the chaos situation, people don't know who even owns the assets, and even outside of the chaos situation, I've been involved in situations where there's an asset sale and IP assets, and one of the assets is your domain name, your URL. Today especially, if it's a consumer brand, that's a key important asset. I can't tell you how many times we go in and the company thinks we own the URL and it's in the list of assets, and guess what, the domain registration is in the name of its website designer, or maybe it's IT manager or Joe Schmo who's a consultant that helped build out the website. Guess what guys, where are we going to find these people? Maybe they're cooperative, maybe they're not. Maybe they're going to hold up the company.

That's the last thing companies think about, are their online assets sometimes, the URL's, and even if they may not be active URL's, they use to direct, those are really key assets today, so you have to factor that in. In a failed company situation, obviously that's one of the last things that's going to get attention.

**RICHARD GERING:** It's just as bad in a successful company, and the reasoning is many successful companies grow by acquisition, and by merger. The ownership of the assets could be in three entities ago, that sort of off to the side of the corporate chart, and not specifically tied into the correct business, and there in the case of enforcing your rights, you may sue somebody, but you may be the wrong person suing them. When the company's growing at a rapid rate, the corporate chart becomes very, very messy in many cases. When a company's shrinking, you have the chaos situation. Both ways are just as dangerous, economically.

**IRINA TARSIS:** When we were discussing various scenarios, I'm trying to use the information that you just heard in a practical fashion, we talked about the frailty of brands, from being thin marks, to going very strong, to then being subject to some kind of a scandal, or toxic environment which then depletes the value of the brand. We talked about the H&M commercial. We didn't discuss it, but there's a show on or off Broadway, "The Comet," which was quite popular until it closed rapidly in the summer. Can we discuss what happens between maintenance of the value, and then deciding this is too toxic and we'd better step away from that particular asset.

**BARRY WERBIN:** It's a question of consumer perception, because you have to sell products. If people are not going to buy your products and services, you just shut it down. I remember growing up, what was it, the Ford Pinto that kept exploding. It's another great example of American history. That became "the Death Pinto," literally. I would disagree with you, I think that is a tainted brand. Whether in some iteration it might come back in the future, I don't know, but it depends. There have been companies that have been hit with tax fraud and things like that, that have survived. Tylenol survived, and what's the farm stand one in Connecticut? Stew Leonard's. They survived, and they're all over the place. There was a major tax trial, and liability there in the family, but it survived.

The brand survived. Why? Great pricing, good products, fun stores to shop in. That kind of stuff is there, but when you get to moral stuff like stealing, cheating, knowingly selling huge amounts of counterfeit paintings, now you're dealing with moral wrongs. I think there's a big difference between moral wrongs, having cars that blow up and kill people, tax fraud, and things like that. I think that often ... Consumers can look aside on this side, but not on that side. Exactly.

**FEMALE SPEAKER:** Their quality. If you're selling something, and you want to have quality.

**BARRY WERBIN:** Right. Stew Leonard's, that had nothing to do with the quality of their products, they weren't selling tainted products. It was something unrelated. It's a weighted scale, it's a question of consumer perception, which changes too over time.

**RICHARD GERING:** A brand is very valuable when it becomes a short hand that represents something. We'll take a great brand in the entertainment industry, Weinstein, right?

That's a brand, depending on which time period you look at, was associated with certain things, and then a different time period is associated with other things. It's been a very obvious change in the brand, a very obvious change just to the whole company, even when the person who represented the brand separated from the company, that can be different than when there's, let's say, a tax issue, but the underlying product is one that people still value, or enjoy. I think that also shows the fragility of the brand, because hypothetically if those allegations had come out 10 years ago, 20 years ago, or you could say they were out 10 years ago and 20 years ago, but nobody was listening, the impact on the brand just from a financial perspective was dramatically different.

I think that's a very clear example of where the underlying product, producing movies that the public loved, became so tied to the name that it just had a huge effect.

**MALE SPEAKER:** How has the Trump brand fared since before and after he became President?

**OLIVER HERZFELD:** We're not going to go there today. You do know the complex over behind Lincoln Center. They're in a fight right now in court to remove the name, Trump Plaza.

**RICHARD GERING:** I think the problem we have from a financial perspective, is we're not sure we have good data as to the value before the presidency.

**OLIVER HERZFELD:** In terms of the consumer products, when he was running for President, Macy's and the other licensees were all pulled. That doesn't ... I don't think that's where he made the majority of his money, licensing out for the real estate. He was happy, maybe not happy, but he was willing to allow all of his licenses to immediately be terminated when he was running, but he's trying to hold onto the real estate.

**BARRY WERBIN:** You got to remember this is a global brand, and it's not just the U.S. There's other parts of the world, in some of the Arab countries and Asia, where the brand still has tremendous value and is relished.

**FEMALE SPEAKER:** On an anecdotal thing, on a recent trip, I saw a Trump candy bar in the concession stand, and I asked the woman was it selling, and she said very well to tourists, international tourists.

**OLIVER HERZFELD:** They want to make candy great again. Have you ever seen a license agreement where the licensee was required to put money up front in a fund, in the event of bankruptcy? Would that be a preference payment issue, then?

**BARRY WERBIN:** It could be a preference if you were within the statutory time period, but you wouldn't be an insider. It may be a preference if that was funded with the statutory preference period. You have to be careful.

**FEMALE SPEAKER:** It could be a preference, but let's say you don't know, or the company is going out of business in a year or five years. It's a provision to protect the licensor, but I have seen litigation funding...

Do you think it would be a danger?

**BARRY WERBIN:** I've never seen it. If I were a licensee, that would be a really tough negotiation point for me.

Those are unenforceable. those provisions are unenforceable. They're unenforceable under 365 expressly.

**FEMALE SPEAKER:** Right.

**MALE SPEAKER:** Mr. Gering, I have a question for you about value. What about the phrase The Greatest Show On Earth? How can you value that, and apply to them if they no longer exist?

**OLIVER HERZFELD:** Do you want to repeat the question in case everyone didn't hear?

**IRINA TARSIS:** I'll do it.

The question is if the phrase the Greatest Show On Earth applied only to the circus that used it, and the circus is no longer in existence, how can there be a trademark still alive and valued?

**RICHARD GERING:** We know just anecdotally it still has value, because someone wanted to use it. It may not have any value left in the circus world, it has value to all of us here, when they hear that phrase, and it makes them smile inside and remember the circus. The question becomes how do you monetize it? The way you monetize it, is you find a buyer, basically, who has either a customer base that overlaps, and it would be meaningful to that customer base, and that it would be used probably in something that's less serious, more...I wouldn't say frivolous, I'm searching for the right word. Somebody who could use it. That becomes very important, because again, the longer the time that goes by behind that phrase and going to the circus, the less valuable that has unless it's been replanted and transplanted somewhere else.

I think conceptually, that's where the value is. You need to find somebody strategic, who wants to use it as a tagline, and where that tagline will really help generate the same emotion in a buyer, that that person had when they heard the Greatest Show On Earth, and they wanted to take their kid, or their grand kid or something, and they wanted to remember and talk about when they went. I think that's the key. That doesn't have any numbers in it, but these things are not formulaic.

**IRINA TARSIS:** As a follow- up, there's a trademark that's alive, there's a lawsuit, and either it will be settled, and Kid Rock will pay some kind of licensing fee to go on with his performances, or he might be successful to say he has use of this, and is not infringing on Barnum & Bailey.

Do you have a way of kind of predicting the future and saying this is more likely to result one way or the other?

**RICHARD GERING:** Let me answer the question that wasn't asked first. The only other thing I would add that if you do license, that phrase to somebody, you want to be very clever and very clear with the fields of use, because you want to probably license it again, and again. You may want to license it for a toy. You may want to license it for some kind of apparel. You may want to license it for a game. You may want to license it in many different ways, and you don't want a license in one place to either stop you, or to set value in another place. That didn't answer the question.

**IRINA TARSIS:** The question was with the trademark still in existence, and the lawsuit being bought that the trademark was infringed. Should Kid Rock in your opinion, settle and pay a licensing fee, or try and fight the complaint, and maybe be successful in his arguments that he's not infringing on the trademark? He's not bringing in animals, he's not doing somersaults.

**BARRY WERBIN:** Looking at this thousand-foot view as objectively, my guess is this case will be settled, because there's too much riding on it. You have a world tour, or substantial tour coming up, enormous planning, plenty of entertainment, who else in the room knows what's going on or goes into that, the money that's involved, the parties that are involved. To rebrand the tour, depending on what's been done, if you already have tons of merch printed up, shirts, tickets, everything, it's an enormous cost to redo all of that stuff. I think settling this on an economic basis possibly with Ringling Bros. giving a license for one time use in connection with the show, and related merchandise, and then whatever residual rights might flow from that, I don't think harms their market. It's a positive thing, they can make a lot of money, keep the brand alive, even expand the brand beyond where it was, and create new value.

Which is a point you were talking about.

**RICHARD GERING:** You need to do that, because over time, the association of the mark with the old code is going to erode. You need to do that.

**BARRY WERBIN:** Very good point.

**IRINA TARSIS:** Thank you.

**FEMALE SPEAKER:** One quick question on that. If that becomes the case, do you need to apply for a new trademark?

**BARRY WERBIN:** Trademark rights in the U.S. are based on use, not on registration. Prudence would dictate yes, if I already have musical performances, and music productions or whatever, I would certainly or highly recommend that we promptly go ahead and register this. In connection with the world tour, it's even more important, because a lot of jurisdictions and trademark rights can be based on registration where you don't have to have use. I would get your EU trademarks, and certain countries where knockoffs and counterfeits are rampant, I won't mention certain countries, we kind of know what those are, get those applications filed quickly, it may already be too late. That's sort of the problem we have generally as trademark lawyers. Speaking about global, this is a real case study from a client of mine, longtime client of mine.

It's a family company based in New Jersey, multigeneration, that in part is in a global liquor business, sales and distribution. Mostly hard liquor. This is the story of USQUAEBACH, because everybody says how the heck do you pronounce it? Any whiskey drinkers, scotch drinkers in the room? I highly recommend you try USQUAEBACH. I'm not here to promote it, maybe a little bit. This is a high end sold in the flagon, and I'm going to tell you it's a great trademark history. It's also a fascinating story about the rise and fall several times of a brand, and how it should've , could've been dead, but it didn't, and is now surviving quite nicely.[18]

USQUAEBACH is actually the oldest scotch whiskey brand continuously in existence in the world. Scotch whiskey can only be manufactured and produced in Scotland. They are a very strict provenance trademark, and certification trademark laws on this in Europe. This is my client's IP collateral, it cannot be copied or used, except by permission. It's on their website, which is Cobalt Brands, by the way. The history, this is fascinating, USQUAEBACH is actually a derivation of two old Gaelic words uisge beatha, which literally translates as "water of life, " which whiskey really is, the water of life, as it's come to be.

It goes back to the 16th century. It describes the potent liquor that was distilled from grains. Over time, USQUAEBACH as some people eventually came to pronounce it, developed into the modern English word "whiskey". It's actually the original source for the word whiskey, which by the way is spelled two different ways, with or without the E, depending on whether you're in Scotland or not, another little tidbit of whiskey law. The first reference to USQUAEBACH goes back to 1791 by the famous Scottish poet Robert Burns, in his famous poem "Tam o'Shanter,"

> "Inspiring bold John Barleycorn!
> What dangers thou canst make us scorn!
> Wi' tippenny, we fear nae evil;
> Wi' usquabae, we'll face the devil!"

If you're stoked up, you can face anything.

It became commonly used to refer to Scotch whiskey throughout the United Kingdom. The first marketing, or the first production of whiskey that eventually started being branded specifically as USQUAEBACH, was from a company called Ross & Cameron in Scotland. It was a very famous company historically, and around 1800, in 1800's, and in 1877 Ross & Cameron in Scotland applied the first USQUAEBACH mark to its labels called the USQUAEBACH. Along with its logo, I think it was corn.

In 1926, the principal owner of Ross & Cameron, Donald Cameron, died, and the trademark rights and assets were passed on to another very respected distiller, William Grant & Sons, which was an ambitious company, and they owned a famous distillery.

William Grant was very successful throughout the UK, and then in 1969 a Pennsylvania family owned company called Twelve Stone Flagons, run by Stanley Stankiwicz and his wife Purchased all the trademark rights from William Grant and company.

At that time, the mark had been registered in multiple countries, particularly throughout Europe and the UK, and following its purchase...I'll come back to the other slide. In approximately a 20- year period, Twelve Stone registered USQUAEBACH in over 20 countries, including the U.S. and Canada, throughout the EU, United Kingdom, Far East, and even some South American countries, including this logo we called the scroll logo. In 1969 USQUAEBACH was served at the White House at President Nixon's inauguration. Again, in 1989, USQUAEBACH was served at President George H. W. Bush's White House inaugural dinner. Among scotch connoisseurs, this really became a classic, high end, famous brand.

Again, it's a connoisseur product, so it's not know to the general public, but certainly within the scotch whiskey market it was a serious brand. However, tragedy struck, and some would say USQUAEBACH became cursed. In 2001, Stanley Stankiwicz and his wife both die, and the company being a family run company essentially died with it. They ceased operating. Eventually, global inventory markets of USQUAEBACH dried up, and the product stopped being sold at retail. In 2003, a Dutch company called Van Kam International, which was owed a promissory note by Twelve Stone, I think it was in excess of a million dollars, filed suit in the United States district court in Pennsylvania to recover on the note.

The court granted judgment to Van Kam, and to satisfy the debt, the only assets that Twelve Stone had left of any value was the USQUAEBACH global trademark rights, as well, there was a secret sauce in terms of the know-how, how to make it, which was actually kept under lock and key with a famous Scottish distiller that had been used by Twelve Stones for many, many years. Decades. Van Kam takes the assignment of trademark rights, there's a receiver appointed by the court that assigns an assignment agreement, which is all valid, and Van Kam assigns all the rights to a Belgian subsidiary that it owned called Van Kam Belgium, which was in the international liquor business.

Van Kam Belgium then tries to restart distribution. You've got to remember, liquor, scotch included is highly regulated throughout the world, so you just don't go and start manufacturing and selling. You have to get licenses, you have to get export licenses, you have to find licensed distributors, you have to find production, business plans, you have to find bottles, labels, on and on. It could take several years. It started to do this, but had not yet started selling the product when the curse strikes again. In 2004, Van Kam goes bust in liquidation in Europe. A liquidator is appointed in Belgium, who puts the trademark rights up for sale.

I then get a call from my client in 2005, "I want to bid on those assets." I hire Belgium counsel, who's not only both corporate and IP counsel, and we start negotiating. We're negotiating. The liquidator is then removed for improprieties, I believe it was taking money under the table. Two new liquidators were then appointed, one in the Netherlands and one in Belgium, and they hated each other. Kind of made negotiating difficult, to say the least.

Finally, in March of 2007 an asset purchase agreement was executed, and we closed the deal. The terms are confidential, and then immediately thereafter a working with multiple trademark counsel around the world, as well as in the U.S., we filed trademark assignments where registrations were still active and in place, and in other cases we filed new applications to try and get every market we could.

But then, the curse Continued, in some sense. We found out that here in England, after Twelve Stone had gone bust and let its registrations in the UK and Europe expire because there was no one watching it, a company...

Well, this is public. In my other one the name was wiped out to protect the non- innocent, but that's okay. Whyte & Mackay is a very major UK distiller. Whyte & Mackay again, this is public record, had gone in and registered USQUAEBACH in its own name, in the UK, and throughout the EU, taking advantage of the fact that

Twelve Stone had gone bust. How did it know that? Because it had been a local distributor in the UK for Twelve Stone, and it had some leftover inventory. What did it do? Scotch has a long shelf life. It just resold that little bit of inventory, and that was it.

We knew, because we already started investigating, that they had no intention to market this or make this, and the claim would have been that they got these trademark registrations in bad faith, with no intention to ever sell or market.

So in the meantime, Whyte & Mackay, its Canadian counsel follow cancellation proceedings against my client's registration in Canada. Why? Because Canada, like the U.S., has a three-year non-use period that also, by the way under Canadian law, required proof of intent to resume, by actual facts, not just self-serving statements. The law is almost identical to the U.S. However, even though we had trademark counsel of record with the Canadian trademark office, neither our counsel was served, nor was my client served, and it was default, because the trademark in Canada messed up.

However, your only recourse is to appeal to the Canadian federal court. Those of you who practice trademark law, it's like appealing from a TTAB decision to the federal circuit. The decision of the Canadian federal court is in your materials.[19] It's a case of almost first impression that's actually been cited many times since. The issue in Canada, not very different to the U.S. is whether, despite a six to seven-year period of absence on the Canadian market, special circumstances existed that did not result in abandonment of the USQUAEBACH trademark rights by my client in Canada.

The court concluded that, based on these unique circumstances of the death of the owners of Twelve Stone, of the liquidation of the Van Kam company, of the difficulties of liquor in the market because of the regulatory scheme, etc.

Here's the seminal paragraph. I'll read starting the second sentence: "It is relevant that the immediate resumption of the use of USQUAEBACH by [Cobalt] was impeded by the nature of the liquor industry, and more specifically, the regulatory schemes that must be complied within each Canadian Province." No different than the U.S. on a state to state basis. More importantly however, is the fact that due to the two deaths between 2001 and 2007, USQUAEBACH blended Scotch whiskey had not been in production for six years requiring appellant to start from the beginning.

"The Court finds that in light of the foregoing, there is a basis to conclude that the absence of use of USQUAEBACH since April 2007 was also do to special circumstances that are not normally faced, and circumstances of non-use, and are not due to the deliberate decision of the registered owner." This was a fantastic decision, because it not only helped us in Canada, because the law is very similar in the U.S., and indeed in most Western jurisdictions. It would be ammunitioning to go after Whyte and Mackay, which frankly we had planned for years in advance. What happens is, we hired an investigator working through top London IP litigation counsel, and the investigator got clear evidence that there was never an intent to use it. They had no intention to market or sell this. We had complaints for cancellation prepared to cancel the registrations in the UK and EU prior to filing when we were confronted with this, and based on that, we were able to reach a pretty quick resolution where all the trademark rights and the registrations in the UK and the EU were transferred to our client.

The terms are confidential, but suffice it to say, it was an extremely good deal for the client. As a result, we have a very successful brand revival. It's taken several years. It's now sold in 20- something states in the U.S., and growing. Canada, Japan, and other jurisdictions in the UK. This is a great story of brands today are global, and you have to consider if you have a client in this situation, that it's not just the U.S., you have to martial assets, you might have to get counsel in other jurisdictions, the laws are different in other jurisdictions, and you have to put together a plan. You have to think about immediate, middle, and long term. What is the plan? How are you going to acquire these rights? The due diligence as soon as possible is really critical on this, because you don't know what's really out there.

As we heard before, when companies are stressed, registrations are not renewed, you don't know who's got what, what's alive, what's dead. What inventory is out there, who are the distributors, and this is a critical thing to really focus on.

**BARRY SKIDELSKY:** At this point we're going to take a break of about 10 to 15 minutes to change panels, and set up some other stuff. Outside is some coffee and soft drinks, please feel free, and we'll see you in about 10 or 15 minutes.

(End of session one at whereupon, a short recess was taken.)


**Panel 2: Content Distribution in the 21st Century: Traditional TV, VOD, Streaming and More**

**Moderator:** Peter Hamilton

**Panelists:**
Eriq Gardner, Senior Editor, *The Hollywood Reporter*
John R. Morse, Ph.D., President, Byron Media
Ezra Doner, Esq., The Law Office of Ezra Doner
Aleena Maher, Esq., SVP, Business & Legal Affairs, Global Music & Entertainment Group, Viacom Media Networks
Rhonda Powell, Esq., SVP, Business & Legal Affairs and Chief Legal Officer, Complex Networks
Peter Rienecker, Esq., VP, Legal Affairs, HBO

* * * * *(Whereupon, the second session began at 3:50 p.m.)

**BARRY SKIDELSKY:** Welcome back. And thank you again.

Our next panel is titled: Content Distribution in the 21st Century, a loose title.

As you'll hear in a moment, the moderator, Peter Hamilton is from Melbourne, Australia. 40 years ago, Peter emigrated from Australia to the United States, because he didn't want to live in a country whose media was dominated by Rupert Murdoch. Funny how that worked out, after finding work as an executive at CBS International, Peter set up his own consulting practice focused on business development for documentaries, and other unscripted film, and television.

His consulting clients have included powerful, global media brands, such as Discovery, Scripps, and Canal+, nonprofits, such as Paul Allen's Vulcan Foundation, and even governments, such as Singapore and South Africa. In addition to his consulting practice, Peter publishes a free newsletter , documentarybusiness.com, which reaches more than 20,000 industry professionals each week. Peter also was a co- executive producer of a documentary for the Smithsonian channel, and BBC, about Jonas Salk, and the discovery of the polio vaccine. That project was hosted and funded by Bill Gates.

With a BA from the University of Melbourne, and an MBA from the Wharton school at the University of Pennsylvania, Peter is a highly sought-after producer of independent workshops and panels. Last year alone, his sessions were at MIPDoc, Real Screen Summit and Sunny Side of the Doc.

Lastly, as he will describe the focus of the next panel, as well as introduce our esteemed panelists here today. I ask now that you please join me in welcoming them all, and thank you again.

**PETER HAMILTON:** Thank you so much Barry, and thanks to Diane Krausz, and the New York State Bar Association, and EASL members, who contributed their time and contacts to make this event such a success. Now, we have a wonderful panel here today, and a terrific presentation to kick it off. Just to think about our time for the moment, it is a turbulent time. It's a time of mergers, of reorgs, or outsourcing, relocations, sudden new consumer viewing habits, imploding business valuations, and stratospheric ones too, like Netflix's $100 billion that I read about just a few minutes ago.

I'm particularly honored to be moderating this panel for legal professionals, who are at the frontlines of managing the rights, and other related issues, so that there's a foundation of stability at a time of such disruption. The topic today, as Barry said is, "Content Distribution in the 21st Century," from traditional film, and television, to online, and mobile.

The tagline read, "The phenomenal growth of the Internet, advancements in fixed and mobile broadband technology, widespread adoption of smart TVs, smart phones, and other digital devices, among other factors, has contributed to a paradigm shift affecting how, when, and where audiovisual entertainment, content, and related services are provided. As the world of entertainment, telecommunications, and technology continue their convergence in the digital media era, business models, and distribution methods, platforms, and the law, still struggle to adapt."

Now, the topic specifically mentions distribution, and distribution is the endgame, but our expert panelists will cover the value chain, including development, production, and I'm sure delivery too. Let's just talk about the format for a second. The format for today's panel as follows, my brief intro, I think then going to ask the panelists to just introduce themselves two, or three minutes each.

Dr. John Morse is sitting at the end of the table, will share his analysis of the big trends in distribution, viewing, and measurement, and that will be followed by a panel discussion, in which each panelist will first share their key concerns. Then we'll open up for Q&A, and I believe at 5:20 you'll all be ready for refreshments. I just wanted to excuse my hoarseness, I'm recovering from this Aussie flu, it must've followed me over here too like Rupert Murdoch, thanks Barry.

A brief word about my practice, so I have to just describe this very quickly. My weekly newsletter covers the business of the business, and its great value to you, because it's free, it's called, documentarybusiness.com, so if you find the URL, you can enter your email address. I was going to share a couple of slides, but two key points I want you to keep in mind today, I want you to think about scale as the driver of the immense change that we're experiencing. I had a slide that showed the enterprise value of Facebook, and Netflix, and Amazon up in the hundreds of billions, and little Discovery was such a daunting player in rooms like this only about five years ago, has an enterprise value of about $10 billion Facebook are able to expand on test markets to test the value of various video solutions. They are able to test projects at an expense, at a cost that Discovery, now combined with Scripps, and other major network players can't encounter for a minute as they struggle to retain their businesses. There's one other idea that I wanted to keep in mind too, just think of the ABC of content in terms of premium, middling levels, and then a C level. In my field of documentaries, if we think of blue-chip documentaries, the Edinburgh, the HBO type documentary, the new Netflix commissions like "Rango, " involving major celebrities, if we think of that niche at the top, that's actually expanding, and directors who are accomplished directors, are in tremendous demand from many of these new platforms, and also from the networks like Nat Geo, that are trying to compete against Netflix, and the other big platforms, by commissioning, and promoting really high end, big-budget, unscripted content. That little niche at the top is actually expanding, but the middle range of channels, the 24 x 7 programming schedule, that is facing diminishing revenue from both distribution, as John Morse will explain, also from advertising revenues.

The pipeline is being cut back, the budgets are being cut back, the budgets per hour, orders are being cut back. If you think of our pyramid, a little slice at the top is expanding, the middle is being eroded. The channel... is dismissively sometimes called channel fodder, and then at the lower level, online, unscripted content, is still largely free, or pursuing a business model, so very hard to find revenues, and we'll have a conversation about that today with Rhonda.

Now, just with those two thoughts, scale, and how the impact of digitalization, and new online platforms affects different programming, cost quality levels, with those two thoughts, I'm going to introduce the panel, I'm going to ask each of them to introduce themselves, starting with Aleena.

**ALEENA MAHER:** Hi, I'm Aleena Maher, SVP of Business and Legal Affairs at Viacom Media Networks. I currently handle both international distribution of television programs, and other platforms, as well as licensing in content for our U.S. domestic cable networks, so I work across the channels.

**PETER HAMILTON:** Thank you, Aleena.

**PETER RIENECKER:** Hi, I'm Peter Rienecker, VP of Legal Affairs at HBO, and I work on all aspects of the development, production, and advertising of programming, especially documentary, news based, and reality-based programs, such as, "Last Week Tonight," "Real Sports with Bryant Gumbel," and all HBO's "Vice" assets.

**PETER HAMILTON:** Thank you, Peter.

**PETER RIENECKER:** Thank you.

**PETER HAMILTON:** Rhonda.

**RHONDA POWELL:** Hi, I'm Rhonda Powell, I'm the Senior Vice President of Business and Legal Affairs, and the Chief Legal Officer for Complex Networks. Those are our brands up there on the screen. Complex Networks is a digital first, video first family of brands that are primarily brought to the public right now through our websites, and through our YouTube channels. We are making some forés in getting into the linear area as well, and so we have programming that can now be viewed on Fuse late night, and we have programming that can be viewed on MSG. I'll be talking a lot today about our ability, and our desire to make that transition, and be really all platforms, all the time in the way we deliver our content.

**PETER HAMILTON:** Thank you. Eriq.

**ERIQ GARDNER:** Eriq Gardner, I'm senior editor at the *Hollywood Reporter.* I tend to specialize on matters of complexity. I'm primarily tasked with running our *Hollywood Reporter* Esquire Blog, which covers legal matters, it uncovers new developments, and crystallizes them, trying to figure out ways to promote, and offer understanding about First Amendment issues, contract issues, all sorts of things that folks in the media, and entertainment industry do, stuff that you yourselves probably work on. I've been at *Hollywood Reporter* for about a decade, I've also consulted for cable news networks, wrote in for *Bloomberg*, and *Slate*, and lots of other publications.

**EZRA DONER:** Hi, I'm Ezra Doner, I'm a private lawyer in New York, my practice areas are all aspects of production, finance, and distribution of film, and TV. My background is working in film companies in-house, and I've worked in major firms, and I set up my own office a few years ago. I've worked on a lot of big pictures, such as, "The Chronicles of Narnia," and small pictures, such as, "The Beasts of the Southern Wild."

**PETER HAMILTON:** Ezra, we're going to show your, flip through your poster art.

**EZRA DONER:** Oh yes, well I actually prepared this, it shows some of the films I've worked on.

I'm a traditional film and TV lawyer, traditional media. I've worked on big pictures such as, "Lord of the Rings," in one aspect or another of it, and next Peter, and you can click forward, "The Chronicles of Narnia."

Next, oh, thank you, "Beasts of the Southern Wild," I did key work on that. I was in house at Miramax Films, that brought me back to New York, as Rhonda said to me a moment ago, that I experienced the Weinstein magic there, it's true. I left there 25 years ago, I'm happy to say, but I worked on many prestigious films there, including, "The Crying Game," "Pulp Fiction," I did the work to set it up there, "English Patient," of course, and, "Shakespeare in Love," but at Miramax we also had some genre pictures. We had, "The Children of the Corn" franchise, and we also had the "Halloween," franchise, which I worked on the acquisition of that starting with, "Halloween 6," and also "Kids," which was a Miramax acquisition that went out under a Weinstein brand.

I also worked on, "Fahrenheit 9/11," which was another Miramax acquisition that went out under a Weinstein brand. Both pictures, Disney did not want the company to deal with him.

**PETER HAMILTON:** Thanks very much.

Moving ahead, it is my great honor to introduce Dr. John Morse. John is a friend, a colleague, a partner on consulting projects, and a deeply experienced industry expert, whose expertise and takeaways I always find to be invaluable. Dr. Morse is a sociologist, who specializes in corporate development, and digital video analytics.

His consulting company, Byron Media Inc., has provided over 25 years of media research support for emerging and established corporations, and nonprofits. His client list includes AccuWeather, Comcast NBC Cable, The Hallmark Networks, America Online, HGTV, Ovation, DirecTV, and many such other industry leaders. He also serves as an expert witness on audience measurement issues. Dr. Morse has recently worked extensively on big data projects, including building out Bill Gates' Corbis Media initiative.

After a full-time career in academia, John became supervisor of research new technology at ABC, coordinating developmental research for ABC's three fledgling cable TV properties, A&E, ESPN, and Lifetime, so there are some brands to have, John. Dr. Morse's current focus is on new media platforms, and related trends in consumer usage of new electronic technologies. He's also served on the Nielsen Media Research Advisory Committee on expanding measurement of new platforms, including online, mobile, and SVOD, Subscription Video on Demand.

Dr. Morse holds graduate degrees from Cornell University , MBA, and New York University, PhD, and John has partnered with me on global business development projects, including for France's Canal+, and market leaders in the US, Turkey, New Zealand, Australia, and elsewhere. Today, John is sharing analysis of trends in media, and technology usage.

So John.

**JOHN MORSE:** Thank you, Peter, I appreciate the introduction. I knew I should've brought my mother to this session. Maybe I did. All right, great, thank you.

Well, you just keep hearing about change, right? I'm on the train today, and I'm saying, "Oh, I see, I just got an email," from one of the research folks that I look at their reports, I better download that report immediately, and take a look at it, there might be something that just happened that I missed. Anyway, to quote Yogi Berra, "The future ain't what it used to be." It's a Wild West time in so many ways. I've just spent some time with the D2 networks, the digital networks, now that's a Wild West zone.

Everybody trying to get carriage there, and are there audiences? Yes, there actually are, so okay, onward, television is in a period of rapid change. Right, we've made the transition from analog to digital, and there's been more change in the media world than in the past 20 years, in the next five, then there will be in the last 50 years. Things are moving so fast, it's hard to keep up. This presentation, I have three sections here to set the stage for some discussion.

Who is viewing? Of course, if you are involved in media, you know it's a very audience, numbers driven business. Setting the rates for the advertising, as well as pitching additional distribution. The impact of all these changes on the economic models, and some key takeaways, and trends. Okay, wading right into this, people are consuming a lot more media than has been previously documented. The average person spends more time using media and devices than any other activity.

The average is now 10 hours a day with some type of electronic. Live TV is still dominant, over four hours a day, and computer use at home is now more two hours a day, and 30% of the time involves multiple media usage. NBC did this big study on the Olympics, on how people were using multiple technology simultaneously, easier for those who were teens, and in their 20s, but there were four, some people used four electronics at the same time. They're watching the TV, they got their cell phone, they have their laptop, and there's something else going on, which I believe might actually be music on their Sonos.

This multitasking, which we all seem to be doing seven days a week, 24 hours a day, "Oh, there is a message from a client in Los Angeles," I got last weekend at Saturday at 9:00 in the evening, right? We live our lives more frantically, more personally disconnected, remember I'm the sociologist, I can't resist a little veering into some of the behavioral aspects of this, and how it connects with the media, or are we really? Well, the Viacom leisure study on multitasking findings in America, that more than a third of Americans use TV and the internet in some way simultaneously.

This is a study that went on for a number of years, especially between the TV and the PC. It's really one of coexistence, virtual 30, creating a virtual 30-hour day through multitasking, and while watching TV, the primary simultaneous use of telephones, computers, email, texting, even people do read, I heard that rumor, while watching TV, secondary simultaneous media usage, radio, reading books, and magazines. What's the significance of this for TV programmers that we have so many things going on at the same time?

It's expanded dramatically. Can programmers incorporate live online activities into its shows? Okay, so what's the overall trend in terms of media usage? This is rather busy, I know, but you can see that the total average time has gone from nine hours, to 10 hours of some sort of electronic media usage in only two years. Live TV, and recording, and playback is down. Radio continues to be almost two hours a day for people, well, it's generally drive time, coming and going is the primary use of radio.

DVDs are certainly fading, they're going to be obscure, we'll be throwing them away eventually like we did with the records, the vinyl records. It's all going to be computer files. Game consoles also is about the same amount of time, the increase is also in terms of multimedia devices, and that's specifically Apple TV, Roku, Google, Chromecast, smart phones, computers. Internet on the PC continues to increase, as well as apps on smart phones, and tablets.

What that means, if we have added an hour of time in our daily lives to the using of electronics, what is it that we have less time for? Where did that hour come from? Here's the sociologist having some fun. Sleeping, people are sleeping a lot less. Well, that plugs in the additional caffeine needed in order to function during the day, and the Starbucks studies are very interesting, how psychologically people make a transition between personal, and business lives, by coming into the Starbucks for their morning caffeine.

Socializing, in terms of our personal facetime with people has dramatically declined, and so has the time that we take to eat our meals. We are on the run, and we gobble, and we go. That's where essentially that extra hour has come from. Now, young adults, the millennials, no news here really, use the streaming services most to watch TV. You can see the difference by age group that the online streaming services, that's the kids in their 20s kids, I say kids, excuse me if there's someone here in their 20s, I have a 20-year-old.

Online streaming services are not as prevalent for the older population, but the big change that has been occurring has been the seniors are adopting more and more OTT. There's the opportunity to pick up new business, is really from an older population. They certainly have the resources, they're the most affluent part of the society. The changing economic model, a few comments about that.

The online video homes are really poised to eclipse the multichannel video homes.

That we are going to go from a world that is currently multichannel, satellite, and cable MVPD's, into the world of subscription online. They will coexist for quite a while, but the long run trend appears to be moving clearly in this direction. Cord cutting has brought multichannel penetration below 80% in 2016. The total number of actual TV households continues to increase, but the multichannel subscriptions, the subscription to DirecTV, and Comcast, etc., continues to decline. New households are not signing up, because the younger population, they are connected with the Internet, and they're not doing the traditional sign- up of the distributors, and the net result is a falling penetration for the multichannel distribution.

It has gone down significantly in the last few years. Cord shaving is also affecting cable networks, skinny bundles, and lower tiers, and cutting back. It seems to me, where we're headed, is a selection of subscription by individual networks that I watch, these 12 networks, that's what I want, that's what I'll pay for, forget the rest. That would be catastrophic for currently many of the companies that are out there, that are, shall we say the lower tiers, and especially the independents.

Netflix, well, you have to mention Netflix, right? I mean they're the 800-pound gorilla in the OTT world. They've added almost 6 million homes in each quarter. They, internationally, they even have more in the US. It's over 100 million homes total that have added Netflix. Amazon Prime, which is a combination of the expedited shipping, as well as the video service. You subscribe to one, you get the other. That continues to zoom up, and the video service has not taken off like Netflix, but they are putting some serious dollars into that in terms of programming.

License fees have clearly helped offset subscriber declines for cable networks, but the license fees themselves, the growth of the rate has decelerated, they're still going up, because most of them are put into place for 10 years. The battle continues between the programmers and the operators over license fee increases. The affiliate fee revenue grew almost five percent to $40 billion, and leverage is starting to shift too, to the operators. Yes, the revenue continues to go up, but at a slower rate.

Where is that going to be five years from now? It's very much a question mark, as the networks continue to negotiate a re-up. The cable network industry is still suffering from the cord cutting, and shaving, the loss of subs, no industry consensus on embracing a new Nielsen metric called Total Audience Measurement. Nielsen says, "We will measure every screen, every place." Well, that requires a different technology for each one of the technologies that are out there, and they have made a lot of effort, but are not there yet.

That is not being used as the currency of choice for the buying, and selling of advertising. Everybody's peeking at it, "Oh, yeah, how's my total audience compared to the traditional ratings? Well, let's see what that looks like, maybe I can monetize that even more than I can with the traditional data?" These dual revenue streams are helping to weather the downturn in the ad market, because most of the networks have long-term agreements for distribution, but you can see how the shift in revenue over the last 20 years has clearly gone down from...

Advertising has decreased from the 51% to the 37%, while the license fee has gone from the 43%, to the 60%. That is the current revenue situation overall for the industry, and there are disruptions in the media sector that are leading to fewer linear cable network launches. The business opportunity for launching a new network has really waned. I get calls, "Hey, what do you think, shall we launch something new here?" I said, "Go online, and build something online, if it develops a big enough following, then maybe you can migrate over to carriage in the linear space," but it's really tough to do that.

Launching new channels, less attractive, internet-based streaming services often threaten the dual revenue streams of cable networks. Investing in digital and streaming opportunities will continue, and you can see that there's essentially no major cable networks that have been launched in recent years. There's been some relaunches, there's been several that have folded, and there are some that are peeking in the door to see what they can pull off.

The programmers are rethinking cable network ownership strategies in the skinny bundle area. The midsize programmers, like Discovery, and Scripps, have decided that growing scale is the best way to gain leverage in carriage negotiation, and I'm sure we're all familiar with Discovery buying Scripps, and some large media conglomerates are trimming their portfolios down, some cable network closures, the landscape is shifting towards the skinny offerings.

Okay, so to just jump to some key takeaways, the future of the electronic world is clearly a fully integrated, on-demand, digital service across multiple media platforms. We want to see whatever we want to see, whenever we want to see it, on whatever gadget that's handy. What's the implications of that for tech companies? Audience measurement, which is so much of a driver, and the revenue, and the whole media ecosystem, where are we going here? Someone asked me to include one slide on how audience measurement has changed, which is a very significant part of the numbers that support the revenue.

It's significant, and it's gone from small, syndicated, ongoing study samples, like 1200 homes in the national Nielsen sample in the 1980s, now, it's 40,000 homes in the Nielsen national sample, but the competitor, comScore Rentrak, has 22 million homes, 50 million set-top boxes that it monitors every second, whether or not it's turned on, and whether or not, and what the channel is tuned too. By the way, they know if the box is on or not, but they don't if the TV is on or off. That means, when you turn off your TV, do you turn off the set-top box? I don't, well, they don't know that it's turned off, so they're registering viewership, but what they're doing, is they're applying undisclosed algorithms that if nobody changes the channel in so many minutes, then we'll discard the data from that box.

Audience measurement changes, so it's from the traditional TV viewing, with commercial plus three days of playback as the sales currency to commercial plus seven, including VOD.

And this total audience measurement from all devices is being aided, and being reviewed. The world of television metrics is gone from data sources siloed, each one separate, its separate sample, its separate findings, its separate metrics, like the Nielsen comScore MRI, Simmons syndicated data, syndicated means anybody can buy it, and use it. Now, it's gone towards sources that fuse, and match various databases into "big data," and combine with internal customer data. From macro targeting, like ads for Ford distributed to adults 25 to 54, to micro targeting by psychographics, and purchases.

Ads that are being sent directly to people likely to buy a Ford, it's gone from intense manual data manipulation, with large departments. When I came to ABC in 1984, there were I think 70 people in the research department, right, and everything was done manually. Now, it's highly automated, and with a cast of consultants to help out, and it's gone to data manipulation, and programmatics, data engineers dominating some media companies. The people who can combine data, and tell a story from it have been empowered. On the Netflix website right now, there's a help wanted listing for senior data scientists with Netflix, starting salary, $300,000. That person, and his, or her, many, many employees are going to be part of the Netflix building out of curation a lot better than they're doing it now, right? Helping us try to figure out where stuff is we're interested in, as they add more and more. How do you go through that? Well, they tell you, "Well, you saw this, so you should probably like that."

It works sort of, but somehow you get lost, "Oh, I never heard about that, I didn't know that was on Netflix." It's gone from the use of historical data, to estimate future behavior, ads targeting past consumers, to ads targeting current behavior in real time. These combined databases, which know your history, and know currently what you're doing, and what ads you've been exposed too, and whether or not you went and purchased the data, purchased the product that was advertised, is now a key part of the buying, and selling process, that is we deliver people who will purchase your product, rather than we deliver adults 25 to 54, the likely people who might buy your product some do, some don't.

**PETER HAMILTON:** You have five minutes.

**JOHN MORSE:** Okay, all right. I could go on and on about the big data stuff, but Cambridge Analytica got 5,000 data points on every adult 18+ in the U.S. Afterwards, get me at the cocktail party, I will explain that, what the 5,000 data points are that they have on you. We've adopted a digital lifestyle facilitated by processing speed, larger computer storage, file compression, on-demand capabilities, wireless. The older generation, the seniors are discovering video games, they are jumping into many of the technologies, thank your grandchildren especially.

With the merging of PC, and TV, it adds up to broadband video is the dominant focus. The consumer control over what is watched, and when. Only it's going to be pretty much that only news, and sports are watched live and even those genres are frequently DVR'd in order to skip the commercials. It's more about saving time, than avoiding commercials. We all say we hate commercials, but the time pressure is even more significant for many of us. International distribution of American media content has become a large part of the revenue for U.S. companies.

The large media companies can leverage their assets to continue to dominate the whole system. Independents are at a tremendous disadvantage, forcing some of them to pay for distribution, or give it away for free. Advertising is going through an evolution to fewer, and shorter ads. Now, they have five second ads on TV that are popular. Many of the ads are hybrid, that combine traditional with direct response. In addition, the product integrations are occurring more frequently in programs, and in movies.

That is the noncommercial world, like Netflix, noncommercial, you sure about that? Some advertisers are getting their content, their product included into the storyline in movies, and in television programs. I'll skip over the details on that, and curation is clearly an ongoing challenge for OTT services. Consumers want a deep catalog, and they want a lot of help finding it. Fragmentation of media in audiences, there were over 450 television series created for consumers in 2017. How many can you watch?

How many of them can really monetize a decent audience? I'm coming to the end here, the three legs of successful digital video services, after distribution, and content, is promotion, and a key question is, how to promote? It's becoming more and more challenging. You can't do the old-fashioned mass promotion very easily now, unless you have a large corporation, and you can distribute the ads in brother and sister networks. It's really about cost- effectiveness, and building frequency.

I will just end with this, Mark Twain, "I'm all for progress, it's change I object to," and I'll just come to a stop right there.

**PETER HAMILTON:** Thank you so much John, and those 5,000 data points from Cambridge Analytica, there is a lot of speculation, or theory that, that's what put our President in the White House, is that true?

**JOHN MORSE:** Yes, actually it is. I think a lot of the Russian money went into the data analytics of a number of companies, especially the one owned by the Mercers, and it's a long story, but I'm quite familiar with it.

**PETER HAMILTON:** Have you got another 25 minutes John? Listen, we have a really splendid panel, I'm very excited that each of them is going to share their takeaways, and what are the key issues that are driving their world right now. Each of them is going to share for two, three, five, six minutes, or so, and then we'll gradually evolve into a panel discussion. First of all we have Aleena, and by the way, thank you all, everybody on the panel, for preparing so much. We've had so many conversations to get to this point, and we're very grateful for your contributions, but Aleena, what's happening at Viacom?

**ALEENA MAHER:** Okay. Well, a lot, but...

**PETER HAMILTON:** I guess I should have known.

**ALEENA MAHER:** Yeah, I can't speak about it, but as John said, ad revenue, carriage fees, those are significant sources of revenue for networks, but what I'm going to speak about, is a third revenue stream, which is content, and the distribution of content, which really as... some said, "Content is king," and that really is true. A lot of times people are focused on putting something on the air, but when it comes down to it, it's the other revenue streams oftentimes that you're really making your money. I've had the good fortune of working in both domestic and international distribution at Viacom.

I can say it's a very exciting world, especially the international side. With these new digital platforms, I would say it's made things extremely complex. As we all know, in the past, you would take your show, and distribute it on cable, or satellite, pay TV, and you had just a few platforms, that's both domestic, and international, I'm talking about the TV side.

Then things evolved, of course Pay-Per-View, and Video on Demand, and now with free VOD catch-up windows, and AVOD, and SVOD, and DTO, DTOR. There's just so many different platforms, so I think one of the keys for content owners is to really go out there, and do the proper windowing, and be able to really maximize your revenues. One of the things I think people really do, both I'd say lawyers, or just salespeople, is they limit themselves, and box themselves in from really making the full...Getting the most revenue.

Oftentimes, if you think about it, and you have a distribution strategy, you're more apt to be able to really go out there, and monetize significantly. I think one of the issues also is, and this is something I found, is really, fully understanding these different platforms that are out there. For example, now, things are really converging, due to technology, and just due to the way the networks internationally, domestically are being carried. For example, we had some licensees that are interested in our content, and we're told they're an online, or they're an SVOD service.

Well, the first question you say, is, "Okay, SVOD, people think of Netflix," so they think of online platforms, but there are SVOD services that are TV only, and if you don't understand that fully, you just say, "Oh, SVOD, its subscription, its online," then you're making the mistake cutting yourself off from making a TV linear deal, because that SVOD linear, SVOD TV platform is going to conflict with a TV licensee, a linear TV licensee picking up the rights.

You really have to understand the platforms, you have to ask a lot of questions about them. There's new platforms cropping up constantly, whether they're OTT services, SVOD services, AVOD services. You want to understand how they're monetizing. Is it a fee? Is it a license fee? As a lawyer, it's extremely important to really work hand-in-hand with your salesperson, and understand, and really look at the language extremely carefully.

For example, and this isn't a Viacom matter, but there was somebody who had spoken to me, she did an SVOD deal, actually it was a domestic SVOD ideal, and the SVOD service that she sold her content to, had asked for a holdback on all VOD. She said, "Why would I give you a holdback on all VOD?" The SVOD service was paying so much money, they said, "Well, we want this, it's very important to us."

As a result, she went to make her linear deal, and she couldn't make it, because the linear deal, the television, they wanted free VOD catch-up, and she already said, "No," she wouldn't, she gave a broad holdback. There she limited herself, and she was basically asking me, “How do I deal with this? What do I do?” We had kicked around some ideas, but basically, I think, just you’ve got to keep in mind, the SVOD service, it’s not going to need the free VOD rights.

Yeah, you could say, “Look, I’ll make the deal with you, I’ll trade off this other point, you’re not going to have a bump up in your license fees for the next season, but in return, I’m going to go ahead, and carve out to a very minimum, a seven-day catch-up window perhaps.” Something, and you talk to, if you’re making a simultaneous deal, you talk to that other linear television service, and say, “What can you live with? What’s the minimum?” Everybody will say, “Oh, I want 30 days, I want this, I want that,” but the truth is, a lot of times they’re not even monetizing those.

A lot of times the cable networks don’t even have the system set up through their MVPD’s to ... People aren’t watching necessarily all the shows, so you have to really think very carefully through ... One other example that comes to mind between this convergence between Internet and television, is somebody said they were an online service, and we were licensing a package of movies to them. It turns out that it’s not just an online SVOD service.

I said, “Well, okay, you’re an online.” They said, “Well, we have all kinds of affiliates.” I said, “Okay, well, that’s fine, but I have a linear television licensee already that’s selling this very popular VH1 show, and I’m going to put in your contract, that, okay, you have all the borrowed language you want, but in no event, will this conflict with, or interfere with the rights of my linear television licensee.” Well, they said, “Oh my goodness, we can’t do that.” I said, “Well, why not, because you’re telling me you’re an online SVOD service.”

Well, it turns, and this is what I find very fascinating, it turns out that this particular service is starting as an online SVOD service, but its affiliates have Apps on smart TVs, and the smart TV Apps can be accessed on on- demand platforms on the television portion of a free VOD catch-up. In turn, you can really be in breach of your existing linear television license, if you gave that linear TV licensee an exclusivity against all television.

Again, you really have to...It’s very complicated, it’s very detail oriented, and you have to really...

**PETER HAMILTON:** It sounds like a whole new world of risk every day?

**ALEENA MAHER:** Right, it is. New platforms are ... It’s really fascinating.

**PETER HAMILTON:** That’s great. Great start Aleena, Peter you were nodding so wisely, we can skip you.

**PETER RIENECKER:** Well, no, it’s interesting, because it’s almost as if...I work almost exclusively on the content creation side. In terms of what Aleena was describing, the challenges in the last few years, with the explosion, and the proliferation of all these different platforms, and digital platforms in particular, has been either in the context of commissioned programming, where you still are having to license, and clear third-party intellectual property rights, and even maybe more so in the instance of licensed programming.

You have to make sure that the rights that have been acquired, or are being acquired, are adequate to cover all of the various platforms that are contemplated. That’s just in a situation where you’re talking about the entire program being exhibited. Our experience, I think, has also been that as we incorporate social media into the campaigns for different programs, that separate content is actually created for the different platforms, which leads to all sorts of other questions.

I certainly have seen, and have to manage instances where there is a lag even with experienced filmmakers, and documentarians, and photojournalists, who are using forms that were cleared a couple of years ago, and if you really read them the way sometimes people don’t, there are holes in them, and they don’t actually cover what they need to cover. Depending on how serious, or how clear that hole is, you may have a situation where you either have to go back, and renegotiate, or reacquire the particular rights, or have to make a decision as to whether or not the photo, or the film clip, or the piece of music may not be usable.

We had a situation fairly recently with a fairly high profile expensive licensed documentary, where the music rights had been negotiated for a fairly lengthy period of time, and it became apparent long after the deal had actually been done, at least in principle, that even though it ultimately didn’t really affect what we were planning on doing in terms of exhibition of the film, that because of the way in which the music had been acquired, there could be no download rights. That, for some distributors, would actually be a fairly big hole, and might have completely upset things. It’s not atypical, and I think a lot of times it has to do with the fact that at least based on my experience, the contract language, and the way in which rights are required, tends to lag a little bit behind the technology. New technologies come along, no one knows exactly how to characterize them, and you take the square peg, and make it fit the round hole.

You take the predecessor technology, and you say, “Well, it’s probably like this in terms of how it gets expressed." That's one area that I think we've noticed in terms of production of programming. The other area that has been really interesting, is educating producers that the use of social media in accordance with the terms of use, which very often, which usually explicitly permit you to re-Tweet, or send the media out, and recognize it on the same platform, doesn't necessarily mean that you can copy the image, or photograph, or GIF, or whatever is in the social media, and put it in a different context in a film, without actually independently obtaining permission.

I've gotten arguments about that, because people know enough about the way in which Tweets are disseminated, let's say, and they'll come back to me, and they'll say, "What do mean I can't use this?" I said, "Well, did you clear it?" and actually someone said, "Well, no, I didn't." I said, "Well, what makes you think you can use it?" He said, "Well, you know, it's social media, it's the Internet," and he said, "What do you warriors call that? It's fair game." I thought that was real funny.

It's a much more visceral concept. Anyways, those are the kind of issues that I think come to mind the most with the explosion of platforms.

**PETER HAMILTON:** Yeah, it's really interesting, thank you so much Peter. Now, you are operating at the top end of the pyramid I described earlier, a big director in documentaries , budgets can be as high as $3 million for special projects, I'm not asking you to nod.

Rhonda, you're focused on creating online media, right? Then leveraging that up into channels, so tell us a little bit more about your mission, and your key challenges.

**RHONDA POWELL:** Absolutely, this was a perfect segue, and to say that I feel your pain is an underestimation. I think you feel my pain, because I think it's probably many times that number of occurrences. We have daily discussions about fair game at Complex. I look at this whole situation through the lens of the way that the digital platform has evolved. Not so long ago, you had your linear platform, which was high quality, premium content, it was beautiful, it was glossy, and then you had this digital platform, this digital world where you could get lots of content, there was lots of stuff there, but it wasn't particularly high quality, right?

A lot of it was of the user generated sort, and the expectation was that it was something that when you were visiting the digital platform, it was an exploratory thing. Something to fill excess time, but not really serious content watching, right? Thank you, Netflix, that's all changed, right? Netflix provided really the roadmap to high quality content, different platform, and that's both been a benefit, and a curse to companies like Complex.

The way that it's a curse, is that formerly, if you were on the digital platform, you were able to negotiate and bargain with folks, who were doing content, and a lot of it was short form content for you around the pricing, and cost for them to either be the talent, be the production company, provide materials, licenses, provide rights that you wanted. The thought was, "Well, this is short form, this is not going to be high-end, premium content. It's a way to maybe accentuate, or bring more attention to myself, or the folks who are going to be watching it, but it's not like being on TV."

That's not true anymore, so that when we go out, and try to negotiate with the budgets that we have, as opposed to the budget that HBO has, to have content made, we're running up against this issue. It's becoming more, and more expensive to produce the premium content that we want to produce on the digital platform. The other piece of that is, that folks who are working with us, are fully cognizant of the fact that we don't intend to just stay on the digital platform. We're looking for transition for our content as well, it's not just that linear channels are distributing themselves in different kinds of ways, and getting onto the digital platform, and getting into Apps, so that their viewers can see their content all the time, it's also that digital platform content creators are migrating from the digital platform to other places.

Right now, Complex, yes, it's a website. Yes, it's a YouTube channel, but we also have a Snapchat Discover channel for two of our brands, both the Complex brand, and our Rated Red brand. We work with Facebook, and have delivered content to Facebook for their Watch channel. We're on Fuse, we are on MSG, so we're all over the place, and so the production companies, and the talent, and everyone else whose materials, or services are involved with the production of that content, know that.

At the end of the day, the money available to make some of these things, becomes a struggle. For digital platform content creators, I think that the real struggle is how to finance the content that you want to produce before you necessarily have the income stream to support the financing of that content. I spend a lot of time working with my business teams, really trying to resolve that issue. It doesn't seem like that's the issue when they come to me, and say, "Can I use this? Can I do this? Can I do that?"

At the end of the day, that really is the issue that we're trying to solve for, and it's a complicated one.

**PETER HAMILTON:** Thank you so much then, Rhonda. Eriq, I was reading your press clippings the other day. Your writing is excellent, your coverage is most impressive, and you've really focused very strongly on legal questions as they relate to our industry. What have been the top issues, topics that have been on your mind recently, that you'd like to share with our group?

**ERIQ GARDNER:** Sure. If someone had asked me that question 10, 15 years ago, I probably would have said that, "The biggest issue in entertainment today is intellectual property, and how we're going to monetize content." I think back then, there was some existential dread with piracy, and a wondering whether there was a future in monetized content. If you had asked me that question maybe a year or two ago, I probably would've said, "The biggest issue is privacy," but actually now that I'm thinking about it, I'm thinking that's still a few years away.

We talk about 5,000 data points on any individual, there's no clear law, no great statutes on that, and I think we're still a long ways away from having that discussion about what's being captured, and the monetization of trying to figure out who we are. What I see though, and what I've been dealing a lot with in the past year, the number one issue I see, is issues around competition, especially after the election of Donald Trump.

I think the biggest stories I've been working on in the past year have revolved around media mergers, antitrust lawsuits like the one over the AT&T/Time Warner merger, or the repeal of net neutrality. I think what we see in all of those sorts of things, is that we are seeing a reordering of relationships in the entertainment business. I thought it was interesting, in the initial presentation, there was talk about, "Well we're devolving into this area where we're all going to have à la carte programming," but why stop there, because what's the need for programmers? Why isn't it just productions, and studios, and what is the difference between Netflix and HBO?

What's the continued viability of a linear channel? I think a lot of the questions that we're dealing with are trying to figure out where those next steps are, and joining together of certain media relationships, and telecoms, and producers, and one of the most interesting deals of the year, I thought, was Murdoch's sale of his Fox properties to Disney. Getting beyond the whole Shakespearean drama of the Murdoch family, I think that there was some acknowledgment that Fox didn't have enough scale to compete with Netflix and Facebook, and I think that's a really interesting development in terms of media. A lot of the stuff we're dealing with right now, I think has to deal with competition. What's a fair competition? It's a bit of a Wild West at the moment.

**PETER HAMILTON:** This competition is so shaped by the regulatory environment, and you follow that very closely.

**ERIQ GARDNER:** Yeah, right, now it's a deregulatory environment, right? We're getting crosscurrents here, whether it is with disaggregation, but at the same time, an open invitation for everyone to merge, and make deals, so it's an interesting thing to watch play out.

**PETER HAMILTON:** Tracking that as closely as you do, any surprises that you'd like to forecast between now and the end of the year?

**ERIQ GARDNER:** Surprises? I mean I think there will continue to be some big deals, consolidation. I wouldn't be surprised if a company, maybe even someone on this panel, is acquired by a big telecom.

**PETER HAMILTON:** What about Apple and Netflix?

**ERIQ GARDNER:** Apple and Netflix? No, Apple has different ambitions, but I don't know if they'd merge, but I see other really interesting deals on the way.

**PETER HAMILTON:** I'm going to ask Aleena to comment. Ezra, what's been on your mind the last few months, and also looking ahead.

**EZRA DONER:** Yes. Well, my background is in film business affairs, and film legal affairs, but my practice has been moving more and more into television.

Last week I was at NATPE Miami, and two developments there really got my attention. One is Facebook Watch, anyone here familiar with Facebook Watch in the audience? Yes, okay, so you're ahead of me. I saw a presentation by Facebook about Facebook Watch. It's television programs embedded directly in Facebook.

So far, the programs that they have, there's I think five, or six series already available through Facebook Watch, are primitive. They're reality-based programmings, the production values of some are better than others, not that interesting, but they're a laboratory, I think, for Facebook, which is a move they've announced, that they're moving into scripted television shows. When you think about Facebook as an ecosystem for Television, look at Netflix. So Netflix has information about your viewing habits in the Netflix ecosystem. They know when you start a show, and how far you get in it, and whether you stop, and start again, and whether you binge on to other shows, and what other shows you like in the Netflix inventory.

Look at Amazon, they add to that, they have your shopping history, and obviously the programming service in Amazon is really ancillary to their shopping business.

Look at Facebook now, now they know your entire social media usage, or at least your Facebook social media usage, which includes your communications, your likes, your dislikes, obviously your habits within Facebook Watch, but also your response to advertising, and other media usage. It was really kind of an eye-opener to me when I saw a presentation about Facebook Watch. The other presentation that made a big impression on me at NATPE was Parrot Analytics. Parrot Analytics is a big data firm for the reactive data with regard to television viewing. They may have other capabilities or products as well, but John spoke earlier about the legacy of Nielsen in the people metered households, 1,200 households, now up to 40,000 now.

Parrot Analytics, and a friend of mine from Parrot is here today, Alejandro Rojas. Parrot Analytics is measuring what they call demand expressions, and that is all kinds of demanded interaction with television assets, and all media around the world, a lot of it through social media, through Facebook, or Twitter, but also through piracy, which is really interesting. They can get very good data on piracy, the universe of people metered homes as John said, 40,000, and that information is proprietary, but apparently a lot of the piracy data is available, and it's not behind walls. Parrot and other companies, I assume, like that, are able to fill in a lot of the blanks for programmers that Nielsen can't supply.

**PETER HAMILTON:** That's really interesting. Alejandro, put your hand up, and he's available for chat during the cocktail hour. Also, I want to talk about breaking stories, my story in my newsletter today is the demand for documentaries across online and social media platforms, recent highlights from Parrot Analytics, and I wasn't prompted over here, it is a really important topic, and you'll find that on my newsletter too.

Thinking about how our panelists are responding to their own colleagues, Aleena, did any of the remarks, or statements of your fellow panelists really pop for you?

**ALEENA MAHER:** Well, definitely.

**PETER HAMILTON:** All of them, of course.

**ALEENA MAHER:** All of them, yeah, no, you always take away something. I think Rhonda, what she's doing, I think is very much the next wave of how content is produced and distributed. I've spoken to other people in the industry, and I think very much these brands that are out there, and there's so many different websites out there "AwkwardnessTV," and "Refinery29," and there's just so many of them, not so many of them, but only a certain number that are really successful, and some of them are valued at a billion dollars.

I think a lot of these will eventually go public. I think definitely, I think that's, in my eyes, the way, a future, I thought. What she was saying is interesting, I think I agree with Peter, I think the clearance issue, I know with international distribution oftentimes you find out music isn't cleared for more than three years. People aren't remembering to clear for SVOD, download to own in a particular show. Everyone has to know that, and remember that, so they cannot make a mistake, and sell it.

One of the things also we're doing is, and to get around this is, we have a show hit the floor in VH1, and very popular music, and one of the things we do for international, is we just create another version. We may have some of the songs, which we are able to fit within the budget, but you have other music that you put in there just to be able to out and out monetize it. I think really everybody said some key things. I think John's overall presentation too, really touched on everything.

**PETER HAMILTON:** I've got a question for Peter then. One of the questions about this shift to online that has interested me, is that I love a lot of old stuff, a lot of film, and television programming in the archive. I've seen more and more of that disappearing from availability, and I'm starting to presume it's because when the original contracts were written, they just didn't anticipate certain rights, and clearances, and distribution, and it's just gone, we'll probably never see it again, is that really the case?

**PETER RIENECKER:** I don't know about just gone. I can say that...I have an interesting perspective here, in that unbeknownst to many people, through a series of transactions involving parent companies that are way too complicated to go into at this point, HBO owns the old Suskind Time Life films library, including shows, which are part of the original Suskind production unit like the, "Get Smart," television series, which was produced by Suskind's company for NBC, and then a single season for CBS. "Get Smart" is still distributed , I'm happy to say. A lot of the contracts, the underlying contracts for some of those films, some of them were theatrical, some more MOW's, clearly the grant, the rights grants don't even contemplate the kinds of distribution we have now. You find yourself looking at a contract trying to figure out whether...Now, I'm already dating myself, whether distributing VHS tapes might have come within a definition called non-theatric distribution, but nothing was defined.

In those days, the real value was the initial network exhibition for a series, and maybe one rerun, and after that, the contracts give fairly short shrift to the remainder, and yes, I certainly have examined, or reviewed underlying rights issues in response to requests, where you go back, blow the dust off the files, which have the old carbon copies in them, and remember them? You look through them and realize that the rights would just be too expensive to re-clear, or to investigate vis-à-vis what the proposed fee would be, so I think that is very likely a reason, or at least one of the reasons that some of those older productions just drop off.

**PETER HAMILTON:** Talking about new productions then, Rhonda, it seems to me that a challenge for you is one of investment that to create funding for a development of a slate of online concepts, brands, and programs, there's a minimum investment for each one, and yet the success rate is always a challenge. How do producers like yourselves fund these business development efforts?

**RHONDA POWELL:** Yeah, I think at the end of the day, you have to make some considered choices when you're making decisions about what your slate is going to be. I think that the conversations that evolve are also around, well, what are the things you can do to support this slate, if you are not distributed in such a way that you have affiliate revenues coming in, you don't have a dual stream yet? We're basically ad supported at this time, we have some licensing revenue, but not nearly robust enough to support our channels.

With that in mind, you think about, well, what is it that we can do that will support this slate? That's where you start talking about things like branded content, and what's the likelihood for sponsorship, and I know that there was some commentary on integration. Well, what are you doing on the integration front to really support then the content that you want to create? Do you have a bifurcation where you have some content that is I'll say pure, for lack of a better word, although my folks would kill me for saying that?

You have some content that is pure, which is that content that really is about the sensibility, and the culture, and the viewpoint of your channel, and you supplement that with maybe some things that are a little bit more commercial in nature, because those are the areas where you can get the sponsorship, or those are the areas in which you can get the integrations that then helps support, and feed some of the other things you want to do, until you've got that critical mass of content that enables you to license out, or that enables you to jump platforms in another way. That's certainly part of what we do.

**PETER HAMILTON:** Do you see your future more in distribution, or in production, and licensing? What's the balance of revenues and profitability?

**RHONDA POWELL:** I see that as parallel paths for us for the foreseeable future, and the reason I say that, is because Complex really does have a viewpoint, and we're not nearly at the point where we feel there's enough out there in the world generally, that, that viewpoint is really spoken for. We will continue to self- produce, or to engage third parties directly to produce things that express that sensibility, but I think the long-term play, is yes, for us to get distribution on a channel basis, or on a large segment of content basis, that's then labeled for Complex, and maybe leave the production end of it to someone else.

**PETER HAMILTON:** Coming back to Ezra's important point, I think, about the impact that Facebook made at NATPE, and we all know that Facebook's strategy seems to be in a blender right now, it's very hard to say how much video is at the center, or the peripheral. For you, is Facebook a critically important outlet for the future?

**RHONDA POWELL:** Facebook is definitely an important outlet for the immediate future, and I think for the foreseeable future. The aggregation of eyes that remain with Facebook, regardless of the criticisms of the platform, regardless of the fact that my teenage children tell me that's where old people go to look at things. The fact remains, that that aggregation of eyes is tremendously important, and if you can prove yourself on that platform, and if that Watch platform shows out, and you're able to prove yourself on the Watch platform, it is an incredible boom for the other things that you want to be able to do with your brand

**PETER HAMILTON:** You only need a small slice of two billion friends to be very successful?

**RHONDA POWELL:** That's right.

**PETER HAMILTON:** Well, good luck to you.

**RHONDA POWELL:** Thank you.

**PETER HAMILTON:** Ezra, anything just to wrap up here, any part of the discussion really sticks out for you?

**EZRA DONER:** Well I'm really intrigued with the points Eriq made about net neutrality, and about media concentration, and really about how those two are going to affect each other, whether with the reversal of net neutrality, if the internet's going to start looking like the cable TV environment, and really the path in which concentration is going. I don't have a sense of that, I wish I did.

**PETER HAMILTON:** Just coming back to this question of scale, and Facebook, as somebody said, there's so much talk about Facebook's strategy right now. With their enterprise, with their market value, they can afford to pursue multiple strategies at once that would be unaffordable for anybody else, and I believe that's actually what they're doing with video, and I think it's a really important time to get to know all Facebook's strategies, all of their tests, because they all can have scale, and many of them just because of the clout that they bring to the table on so many levels, they're going to be successful. I think Facebook is absolutely here stay.

John, you've heard our legal experts, has it reinforced your analysis of the direction of the market, or challenged it in any way?

**JOHN MORSE:** Oh, I think so. I think the challenges and the confusion are going to continue for a long time. The whole deregulatory situation is just mind-boggling, what's coming next? How is it going to be enforced? How is it going to play out? Who's going to cheat in what way? It's almost like a soap opera we're living through here with all of this, and I enjoy some of it.

**PETER HAMILTON:** Unlike me, I have to drag myself up every morning. Listen, our time is coming to an end, throats are dry, drinks are beckoning. We have a conversation with Alejandro, John has already promised to share all 5,000 Cambridge Analytica points.

**JOHN MORSE:** I know all the data points.

**PETER HAMILTON:** John is planning to stay overnight at the Hilton, and take you all out for breakfast as well. I want to thank each of our panelists for all the hard work they put into this, and for being with us here on the panel. We didn't even get to...

**BARRY SKIDELSKY:** I think we have some questions from the audience, if there are anybody that would like to ask...

**PETER HAMILTON:** Really, sorry, I thought we had a 5:20 wrap up, but yes, please.

**MALE-SPEAKER 1:** Everybody on the panel has been talking about television, and advertisements, and things like that. All of that evolved from the old theatrical distribution, and no one has actually talked about what's going to happen to that. One of the data points is that attendance is down, but receipts are up for 2017, can you talk a bit about what's going to happen to the theatrical distribution?

**PETER HAMILTON:** Please.

**ERIQ GARDNER:** Sure, my prediction is that theatrical distribution is actually going to thrive. I think it's going to be a different model however. I think it could evolve into a subscription model, rather than a particular model, where if you see the successive movie pass for instance, you could definitely see a giant exhibitor like AMC, or Regal selling passes like they were Netflix.

Also, I went to a movie a couple of weeks ago, saw, "Lady Bird," it was a fantastic experience, they incorporated dining into it, drinking, so I think there is going to be an evolution of the theatrical experience into more of an experiential element, especially as people spend so much time using devices, there's going to be a need to go out, socialize, have real world interactions. In some respects, I think that movie going will become the outlet for that.

**MALE-SPEAKER 2:** My question regards the sequestering of intellectual property in terms of, we're seeing these IPs grow in such dimension, that some of it's already happening, HBO has its own service, and now we have DC who's growing their own service as well. You're seeing a portion of this IP being separated, and sequestered into its own VOD services, are we going to see more of an evolution of that, or is it more lucrative to try to get product out to as many people as possible?

**RHONDA POWELL:** I'll try that. That's the test. I think the answer that I would give you, is yes, you're going to see more of it, until it's demonstrated that, that is not the most effective, or a more effective way to generate revenue. The reason that things are being pulled off of Netflix, is that studios and other developers of programming have decided, "Well, why should we enable this third party to take our content, and generate massive amounts, not just of revenue, but massive amounts of information?"

Again, when Netflix has that content, they also are controlling the information generated by the people who are viewing it, and that information, is as, or more valuable than the content itself. I think that you will see some disaggregation, and in fact, in some ways I hope that you see the disaggregation, because that provides opportunities for people like Complex to come in, and provide the content that Netflix now is losing because they don't have this huge multilayered deal with Disney anymore.

**ALEENA MAHER:** Just to add to what Rhonda said, I think as Peter started out saying, that scale, using that word, which we also hear very often, is really very key. If you have valuable IP, well that gives you the opportunity to start your own direct to consumer platform, as opposed to having to go to a third party, and go to these MSO's, and virtual MVPD's, and such.

Obviously, one of the reasons that Disney is acquiring Fox, is so that they can have scale, and go out there, and really go right to the consumer. I see it from my own company, there's some original shows that you would've seen on Netflix that are in their Premier window, that are no longer. It maybe library product, or things that aren't as valuable, not to say they wouldn't do it, but I think it's taking that valuable content, and retaining it for your own use.

**PETER HAMILTON:** Thank you. Another question?

**BARRY SKIDELSKY:** That's it.

**PETER HAMILTON:** That's it.

**BARRY SKIDELSKY:** I want to thank you all for an excellent program. Just a couple of announcements, the PowerPoints that you saw today will be posted online. This was an excellent panel, excellent panelists, thought provoking, and you obviously agree by your applause. Just a couple of other remarks. I happen to have a box of mint condition carbon paper, and before I put it up on eBay, if anybody would like to see me, please feel free. Thank you again all, this has been a great day.

**PETER HAMILTON:** Thank you very much.

## Endnotes

1. *Lubrizol Enterprises, Inc. v. Richmond Metal Finishers, Inc.*, 756 F.2d 1043 (4th Cir.1985).
2. *Raima UK Ltd. v. Centura Software Corp.*, 281 B.R. 660 (Bankr. N.D. Cal. 2002).
3. *In re Old Carco L.L.C.*, 406 B.R. 180, 211 (Bankr. S.D.N.Y. 2009).
4. *In re Exide Technologies*, 607 F.3d 957 (3d Cir. 2010).
5. *In Re: Crumbs Bake Shop, Inc.*, 522 B.R. 766 (Bankr. N.J. 2014).
6. *Sunbeam Products v. Chicago American Manufacturing*, 686 F.3d 372 (7th Cir. 2012).
7. *In re Interstate Bakeries Corporation [Lewis Brothers Bakeries Inc. v. Interstate Brands Corp.]* 690 F.3d 1069 (8th Cir. 2012); Rev en banc, 751 F.3d 955 (8th Cir. 2014).
8. *See supra* note 5.
9. *In re Trump Entertainment Resorts, Inc.*, 526 B.R. 116 (Bankr. D. Del. 2015).
10. *In re Tempnology LLC*, 559 B.R. 809 (B.A.P. 1st Cir. 2016).
11. *See supra* note 6.
12. http://caselaw.findlaw.com/us-1st-circuit/1885840.html, First Circuit Holds That Trademark Licensee Loses Right to Use Trademarks When Debtor-Licensor Rejects License, https://www.lexology.com/library/detail.aspx?g=3f5a5790-0809-4919-9cf7-867ae60fc105.
13. *Crash Dummy Movie v. Mattel Inc.*, 601 F.3d 1387 (Fed. Cir. 2010).
14. *Wells Fargo & Co. v. ABD Ins. & Financial Services, Inc.*, 758 F.3d 1069 (9th Cir. 2014).
15. *Macy's Inc. v. Strategic Marks LLC*, Nos. 11-6198, 15-0612, U.S. Dist. LEXIS 11676 (N.D. Cal. Feb. 1, 2016).
16. *Feld Ent't, Inc. and Ringling Bros.-Barnum & Bailey Combined Shows, Inc. v. Robert James Ritchie (PKA Kid Rock), and Live Nation Ent'l, Inc.*, 17-cv-03075-MSS-TBM (Mid.D.Fl.Tampa D. Dec.26, 2017).
17. *Ringling Bros.-Barnum & Bailey Combined Shows, Inc. v. BE Windows Corp.*, 969 F. Supp. 901 (S.D.N.Y. 1997).
18. *Cobalt Brands, LLC v. Gowling LaFleur Henderson LLP*, 2010 FC 260 (Canadian Fed. Ct. 2010).
19. *Id.*

**Entertainment, Arts and Sports Law Section Blog**

The Blog provides a Forum and News Source on Issues of Interest. The Blog acts as a new informational resource on topics of interest, including the latest Section programs and initiatives, as well as provides a forum for debate and discussion to anyone in the world with access to the Internet. It is available through the New York State Bar Association website at http://nysbar.com/blogs/EASL

To submit a Blog entry, email Elissa D. Hecker at eheckeresq@eheckeresq.com

~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~

**EASL Member Community**

*What Are Member Communities?*
The member communities are private, online professional networks, built on the concept of listserves that offer enhanced features such as collaboration tools and document libraries. They offer you a variety of tools to help you connect, network and work collaboratively with fellow NYSBA members.

To participate, each member has a profile based on their basic membership information. You can enhance your profile by adding your photo, professional affiliations, volunteer activities and other accomplishments. You have the option to pull information from your LinkedIn profile, or even link to your personal blog or other social media feeds.

*How Can I Use It?*
Seamlessly integrated with nysba.org, no additional login or password is needed to enter a community. You just need to be a NYSBA member.

Just like a listserv, members of a specific community can share information with one another using email. Documents are emailed among members using links as opposed to email attachments, as attachments can be problematic with spam filters or limits on file size. Members can receive community emails as the messages are posted, or in digest form. These resource libraries have no space limitations, accept all file types, and can be organized using folders. Any member of a community can contribute to the library.

If you are a member of a NYSBA Section, Committee or Task Force, and working to develop a report, white paper, policy change or recommendation, an online community is the perfect forum for you and your colleagues. You have a dedicated space designed to facilitate an efficient and collaborative work effort, find us at www.nysba.org/easlcommunity.
~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~

# A Case for Law as an Artistic Medium

By Caroline Keegan

The contemporary art industry and the legal community differ notably in their conceptions of art. The two worlds do not agree on what art is, a disagreement that causes some artwork to have no legal protections, while giving a legal pass to other artists to create works the art world may wish would be disbanded. At the intersection of art and law, artists find inspiration and new ways to express themselves using law as their tool.

The legal world's conception of "visual art" is spelled out by the U.S. Copyright Act, and is both a traditionalist and reductionist take on the subject:

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

Moreover, copyright protection extends to a narrower subset, "original works of authorship fixed in any tangible medium of expression…"[1] This reductionist idea of art was not invented by the courts; it is reflective of a very traditional view of art and authorship.[2]

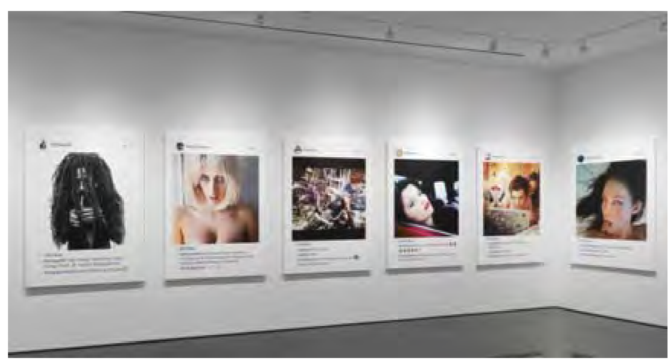
Many artists find this legal definition of art, embodied in U.S. copyright law, problematic. In response, there exists works that challenge that conception. Some artists have incorporated legal discourse surrounding their works. Others use carve- outs in the law to receive legal "permission" to create their controversial works. Several have exhibited literal legal documents as artwork. Below are select examples of artworks created with law as the artists' material.

## Law Provides a Platform for Artworks

Certain artists use law in their works as a platform to question traditional views of authorship and originality also expressed in copyright law. In the 1960s, normative definitions of art began to crumble, and artists started to re-interpret the essence of art.[3] Then and now, appropriation artists would copy the visual aspects of a preexisting work to express ideas about ownership and authorship or, in the case of parody, often about the prior work specifically.[4] Many of these works, arguably intentionally, found their way into court, forcing affirmative opinions as to whether they constituted art. Art historian Arthur Danto presents an excellent example of this idea; a dancer performs a movement of someone ironing a skirt. The choreography was not performed to free the skirt of wrinkles; the movement, although entirely imitative, is an independent piece of artwork.[5]

**Caroline Keegan**

Many appropriation artists use judicial structure as one of their artistic mediums. At the forefront of this is Richard Prince. After being party to a number of lawsuits,[6] with prominent art law counsel, it is fair to assume that Prince is well aware of the legal line he pushes (and occasionally crosses).[7] Reaching record numbers at auction, it is also likely that Prince is able to afford licensing agreements to avoid additional litigation.[8] Artists like Prince knowingly invite the law into their studios, embracing it as part of the process and a crucial layer to the pieces. Years after Prince's first copyright dispute in a courtroom setting, in 2015 he added comments to other people's Instagram posts, took screenshots of the photos with his comments underneath, enlarged them, and sold them for hundreds of thousands of dollars.[9]



10

One attorney explained that "although it looks like a case of outright plagiarism, [it] might be a little more complex if it were argued in a legal context. When I first saw it, I thought it was cut and dry, but then I looked again and saw what was captured specifically, and the commentary under it, then it creates a question. A silly question, especially given that he has sold these for money, but there you go."[11] This "question" referred to is the crux of Prince's work, and the reason why the law plays such an important role in forcing answers. Of course, the question is: What constitutes originality, and who is an author?

Kenneth Goldsmith, a poet and conceptual artist, is likewise completely engaged in the question of authorship and originality.[12] Goldsmith's poetry is a decree against copyright, the legal boundaries placed on appropriation, and the judicial view of originality.[13] He prefaces his work by declaring that he has no restrictions on his work, and he celebrates the copying and sharing of his poetry.[14] Goldsmith believes that restriction on the dissemination of work harms the longevity of its existence, and advocates for greater access and sharing of artistic ideas than the law allows.[15] Goldsmith posted a link on Facebook to a copy of one of his poetry books that had been translated into Spanish and shared online; he commented: "Lovely to see my book pirated in Spanish. #freeculture."[16] Goldsmith's works are described as better thought about than read, as the base of his poetry is directly copied from various unauthorized sources, which often creates absolutely mundane and simultaneously provocative art.[17] For instance, one piece that received much attention was "Printing Out the Internet," where Goldsmith asked his online audience to print out pages from the internet and send them to a specific gallery. He said that "context is the new content."[18]


[19]

Utilizing a legal platform as a medium to re-negotiate an existing piece of work provokes established categories. These artists previously mentioned, as well as many others, portend the end of traditional (and legal) views of art by rejecting the concepts of originality, ownership, and authenticity.

## When Law Protects Creation

In some instances, laws protect artists who create work objectionable in the art world; for example, parody. The law addresses parodic works in the Fair Use doctrine, §107 of the Copyright Act, which reads: "the fair use of a copyrighted work, including such use by reproduction in…for purposes such as criticism, comment…is not an infringement of copyright."[20] This is accompanied by a four factor test.

Jeff Koons is often seen as a seminal example of an artist who is well aware of how the law will play a role in his parodic art.[21] Koons now employs lawyers before, during, and after the creation of his works to evaluate the legality of each step of his process, allowing him to incorporate the judicial system into that process.[22] Koons argued in his affidavit in *Rogers v. Koons,* a case in which another artist accused Koons of copyright infringment, that "my paintings are not about objects or images that I might invent, but rather about how we relate to things that we actually experience…Therefore, in order to make statements about contemporary society and in order for the artwork to be valid, I must use images from the real world. I must present real things that are actually in our mass consciousness."[23] Koons references existing material to create his works, and is often able to use the law to protect such.


[24]

Nathan Fielder, writer and comedian, likewise utilizes the law in his work for parodic effect. Fielder uses legal loopholes as the essence of his work.[25] His most momentous piece that exemplifies law-as-medium is "Dumb Starbucks."


[26]

Through the first part of Fielder's video piece, he speaks to a lawyer about parody law, and begins working on an art piece that would mimic an entire Starbucks store, placing "dumb" in front of every drink title, logo, and retail item in the mock store.[28] Despite the inherent risk in appropriating existing art works, artists such as Fielder and Koons educate themselves on the judicial issues of their works and it appears that they embrace these issues as part of their works.


27

## Law to Subvert

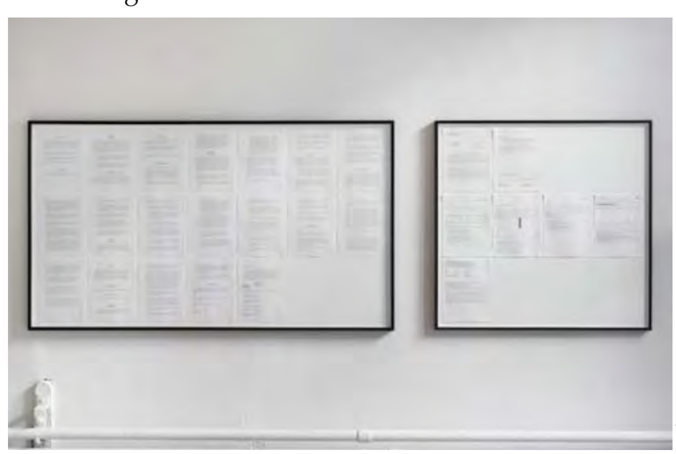
In a 2017 video piece, “Shipping Logistics Company,” Fielder attempted to avoid an import tax law concerning smoke detectors by labeling them as tax-exempt musical instruments. In an elaborate scheme, Fielder created a band with a member playing the smoke detector, achieved notoriety for the band by developing a newsworthy fake controversy with the oil company Shell, and rebranded smoke detectors with new packaging and videos on how to play them as instruments.[29] Fielder spoke specifically about his utilization of the law in his work. He explained that it is about “finding a loophole that’s technically legal but one step ahead of anything anyone else has thought about.”[30] Fielder uses the legality of his work as a stage to highlight a larger social problem, as art often does. Fielder lamented that people often find any legal loophole to make money, regardless of any moral or ethical issue that comes along with it. With law as the medium, Fielder’s works do just that, challenging viewers to question his actions and engage in a critical discourse.[31]

Seth Siegelaub, art dealer and curator, utilized law as a medium in his work “Artist’s Reserved Rights Transfer and Sale Agreement,” otherwise known as the “Artist’s Contract.” It was drafted in 1971 by Siegelaub and lawyer Robert Projansky.[33]

The work is literally a contract. In practice, most attorneys have a set of “forms,” which are essentially the skeleton of agreements they frequently need to write, ready to be filled in with each client’s information and tailored to his or her individual needs. This is exactly that, a three-page, transfer-and-sale contract form. Its existence allows artists to acquire some basic protections without the cost of a lawyer. Originally distributed as a free poster, it was designed to formally define and protect artists’ rights both during and after the transfer and sale of their works.[34] Siegelaub wrote on the piece: “There is no art without you. There is no art world without you. You have given up rights you probably do not know exist. Perhaps you think that you have freedom in your art. But you definitely have no freedom or rights or controls after you make your art.”[35] The idea of the work was to give artists a base for maintaining control over their works.


32

Cameron Rowland likewise has a contract based work titled “*Disgorgement*” (2016). The Museum of Modern Art’s website lists the medium for the piece as “Reparations Purpose Trust, Aetna Shares.”[37] The trust purchased 90 actual shares in the insurance company Aetna, which had formerly issued life insurance policies on slaves to their owners. The piece is symbolic for emphasizing the continuous impact of slavery on the United States.[38] Rowland’s actual framed work is simply the contract for such shares, while the shares, as they exist beyond the framed work, serve as actual restitution to the families of former slaves.[39] In this way, the work exists far beyond the relationship between the work on the wall and the viewer, which Art in America dubs, “socially illuminating value.”[40]



36

Carey Young's works *Declared Void*

41

and *Declared Void II* are in essence large scale interactive vinyl contractual agreements posted on walls.

42

*Declared Void* states:

> BY ENTERING THE ZONE CREATED BY THIS DRAWING, AND FOR THE PERIOD YOU REMAIN THERE, YOU DECLARE AND AGREE THAT THE US CONSTITUTION WILL NOT APPLY TO YOU.

Accompanying the text is a marked off area. Likewise, *Declared Void II* states:

> BY ENTERING THE ZONE CREATED BY THIS DRAWING, AND FOR THE PERIOD YOU REMAIN THERE, YOU DECLARE AND AGREE THAT YOU ARE A CITIZEN OF THE UNITED STATES OF AMERICA.

Young explores the monolithic power of the legal system through these artworks.[43] The works were displayed in a show titled "Legal Fictions." The text is drafted in legalese, and gives the impression that it is true and enforceable, yet, of course, stepping into the zones ascribed to the texts absolutely does not result in the proposed outcomes.[44] The statements and associated acts are legal fictions that simply invite the viewer to interact with the idea of how law moderates one's life and identity.

Taryn Simon's 2015 exhibition *Paperwork and the Will of Capital* presented itself as a group of archival-style photographs and sculptural works that documented agreement meetings in international jurisdictional history.


45

For the series, Simon recreated bouquets present on the tables where world leaders were brokering deals. She then photographed the bouquets, and paired them with text summarizing the legal element and archiving the species of plant. By pairing the legal texts with visual element, the work did not simply record pivotal moments, but through archival methodology, effectively reacted to it and highlighted the artifice of both the bouquets as stand-ins for the natural and the meetings respectively. The legal text, incorporated as a medium in the works, pairs with the soft flowers to give meaningful context to the images.

## Conclusion

Artists use law as an artistic medium by taking advantage of the platform a lawsuit can offer a work, utilizing the protections the law affords them, and embracing the creative potential of legal documents to formulate works that have tangible consequence beyond a museum wall. Using law as an artistic medium in producing artwork is not new or rare; however, the law's centricity to these artistic projects is often treated as subordinate to the greater artistic idea. The above examples establish the trend of artists recognizing the capacity for law to be artistic and inspiring.

## Endnotes


1. Copyright Law of the United States of America 17 U.S.C. §§ 101-810.
2. Arthur C. Danto, *What Art Is*, ix-xii (2013).
3. Sherri Irvin, *Appropriation and Authorship in Contemporary Art*, 124 (2005).
4. *Id.*
5. Arthur C. Danto, *What Art Is*, ix-xii (2013).
6. Cariou v. Prince, 714 F.3d 694 (2d Cir. 2013), Donald Graham v. Richard Prince, et al. No. 15-CV-10160 (S.D.N.Y. July 18, 2017), McNatt v. Prince et al No. 1:16-cv-08896 (S.D.N.Y. November 16, 2016).
7. Brian Boucher, *Richard Prince Moves to Dismiss Latest Copyright Infringement Lawsuit*, ArtNet (Feb. 26, 2016), *available at* https://news.artnet.com/market/richard-prince-dismiss-copyright-lawsuit-436046.
8. David Cohen, *Brian Appel Interviews Experts on Christies Sale of Richard Prince's Cowboy*, Art Critical (Dec. 2005), accessed December 12, 2012, *available at* http://www.artcritical.com/appel/BAPrinceRecord.htm.
9. Lizzie Plaugic, https://www.theverge.com/2015/5/30/8691257/richard-prince-instagram-photos-copyright-law-fair-use.
10. Richard Prince, "New Portraits" (2015), *available at* http://pixel.nymag.com/imgs/daily/vulture/2014/09/23/23-Prince-New-Portraits-2014-14.w1200.h630.jpg.
11. *See id.*
12. 7 Kenneth Goldsmith, *Goldsmith on Poetry and Copyright*, Poetry Foundation (2007), *available at* http://www.poetryfoundation.org/harriet/2007/05/goldsmith-on-poetry-copyright/.
13. *See id.*
14. *See id.*
15. See Dave Mandl, Kenneth Goldsmith Interview, The Believer (2011), *available at* http://www.believermag.com/issues/201110/?read=interview_goldsmith.
16. Kenneth Goldsmith Facebook Profile, *available at* https://www.facebook.com/kenneth.goldsmith.739?fref=ts.
17. See Dave Mandl, Kenneth Goldsmith Interview, The Believer (2011), *available at* http://www.believermag.com/issues/201110/?read=interview_goldsmith.
18. *See id.*
19. Kenneth Goldsmith, "Printing out the Internet" (2013), *available at* https://upload.wikimedia.org/wikipedia/commons/a/ae/Goldsmith_paper.jpg.
20. Copyright Law of the United States of America 17 U.S.C. §§ 101-810.
21. Jackie Battenfield, *Reality Check Interview with Sergio Sarmiento* (Mar. 1, 2008), *available at* http://artistcareerguide.com/interviews/sergio-sarmiento.
22. *See id.*
23. *See* Rodgers v. Koons, 960 F.2d 301 (2d Cir. 1992).
24. Jeff Koons "String of Puppies" (1988), *available at* https://www.designobserver.com/Images/traub-puppies2.jpg.
25. John Teti, Nathan For You's Star Confronts the A.V. Club Mom who Scorned Him, A.V. Club (Oct. 15, 2015), *available at* http://www.avclub.com/article/nathan-yous-star-confronts-v-club-momwho-scorned--226825.
26. Nathan Fielder "Dumb Starbucks" (2014), *available at* https://i.guim.co.uk/img/static/sys-images/Guardian/Pix/pictures/2014/2/10/1392069943741/c7453da0-0892-4624-9342-4522fe7a2229-620x372.jpeg?w=300&q=55&auto=format&usm=12&fit=max&s=75bd90e5db9b927c6a46adc0f17afc9a.
27. Nathan Fielder "Dumb Starbucks" (2014), *available at* https://i.ytimg.com/vi/k71POFb6PqY/maxresdefault.jpg.
28. *See* Andy Greene, Nathan Fielder Talks 'Dumb Starbucks' And Pranking Instagram, The Rolling Stone (July 24, 2014), *available at* http://www.rollingstone.com/movies/news/nathan-fieldertalks-dumb-starbucks-and-pranking-instagram-20140724.
29. Nathan For You, Season 4 Episode 5 "Shipping Logistics Company" (2017).
30. John Teti, *Nathan For You's Star Confronts the A.V. Club Mom who Scorned Him*, A.V. Club (Oct. 15, 2015), *available at* http://www.avclub.com/article/nathan-yous-star-confronts-v-club-momwho-scorned--226825.
31. *See* Joe Berkowitz, *"T.G.I. Fart," "Jamba Jews," And Other Corporate Parody Art From Nathan Fielder's "Dumb Starbucks" Show* (Jul. 30, 2014), *available at* http://www.fastcocreate.com/3033792/see-tgi-fart-jamba-jews-and-other-corporateparody-art-from-nathan-fielders-dumb-starbucks-s.
32. Seth Siegelaub and Robert Projansky "Artist's Contract" (1971), *available at* http://s3.amazonaws.com/contemporaryartgroup/wp-content/uploads/2014/12/Contract-25.jpg.
33. Nana Asfour, Essex Street Presents Siegelaub's 'Artist's Contract' Exhibit, ArtNet News, (2014), *available at* http://www.artnews.com/2014/11/10/seth-siegelaub-artist-contract-at-essex-street/.
34. Caroline LeFevre, *Seth Siegelaub's The Artist's Reserved Rights Transfer and Sale Agreement*, The Guggenheim (2013), *available at* https://www.guggenheim.org/blogs/findings/seth-siegelaubs-the-artists-reserved-rights-transfer-and-sale-agreement-french-version-2.
35. *See id.*
36. Cameron Rowland "Disgorgment" (2016), *available at* https://www.textezurkunst.de/media/upload/656bd3dc-9b6b-436d-b407-a9bda017925e-weiner_rowland_2_t_w640.jpg.
37. The Museum of Modern Art, *available at* https://www.moma.org/collection/works/203679.
38. *See id.*
39. *See id.*
40. David Markus, Cameron Rowland, Art in America (2016), *available at* http://www.artinamericamagazine.com/reviews/cameron-rowland/.
41. Carey Young "Declared Void" (2005), *available at* https://static1.squarespace.com/static/54be63fbe4b013117e15f3ba/t/589dc5da17bffc8381e0835c/1486734819855/?format=750w.
42. Carey Young "Declared Void II" (2013), *available at* https://static1.squarespace.com/static/54be63fbe4b013117e15f3ba/t/56bcd90fc2ea51881c351a74/1455216915119/Declared+Void+II_adj.jpg?format=2500w.
43. Carey Young: Legal Fictions (2013), *available at* http://www.careyyoung.com/carey-young-legal-fictions/.
44. *See id.*
45. Taryn Simon "Memorandum of Understanding between the Royal Government of Cambodia and the Government of Australia Relating to the Settlement of Refugees in Cambodia. Ministry of Interior, Phnom Penh, Cambodia, September 26, 2014" (2015), *available at* https://www.gagosian.com/__data/fd202570dc67afe09b2a2faf4c12891d.jpg.



**Caroline I. Keegan received her Juris Doctor Degree at Fordham University School of Law, and holds a Bachelor of Arts in History and Criticism of Art. Caroline was a Fellow in the Art & Law Program, the Center for Art Law, and the Research Center for Arts & Culture. Caroline previously worked at the Museum of Modern Art, the Metropolitan Museum of Art, the Brooklyn Museum of Art, Volunteer Lawyers for the Arts and, most recently, the legal department of the Calder Foundation. Caroline currently works on art and corporate matters at Kurzman Eisenberg Corbin & Lever, LLP.**



***A version of this article was published on the Center for Art Law blog on December 28, 2017.***

# "Anything Goes": Regulating the Conduct of Money-Bundling Broadway Co-Producers

By David Manella

***Phil Cowan Memorial/BMI Scholarship Award Winning Article***

In 2011, *The New York Times* published an interview with producer Sonia Friedman commenting on the "staggeringly" high cost of producing Broadway shows.[1] Whereas in the mid-1980s, it cost approximately $5 million to produce a Broadway musical and $700,000 to produce a Broadway play,[2] by 2011, those costs were reported to be approximately $10 million and $2.5 million, respectively.[3]

**David Manella**

To incentivize investors to bankroll Broadway shows, productions now give above-the-title producer credit (as defined in Section I) to individuals solely for raising or contributing a portion of the show's capitalization. *The New York Times* describes this practice:

> When Elizabeth Taylor announced "42nd Street" as the best musical Tony winner in 1981, only one producer walked to the stage: David Merrick, a giant in the business. He had investors, sure—but back then they were content to be anonymous…[T]oday, anonymity won't do. In exchange for their money, investors want a say (they're invited to marketing meetings), love the limelight (free opening-night tickets) and otherwise expect to be treated like producers.[4]

Take, for example, the 2014 Tony Award®-winning Best Musical, *A Gentleman's Guide to Love and Murder*. The show was an "unlikely hit"—it was written in the style of British operetta, and it boasted neither big-name Hollywood stars nor a recognizable underlying brand.[5] During previews (public performances before a show's official opening), lead producer Joey Parnes was still short one-third of the $7.5 million capitalization, which he had to raise by opening night.[6] To close his fundraising gap, Mr. Parnes offered above-the-title producer credit to 44 individuals for investing or bundling small units of the remaining capitalization.[7]

This article will analyze industry concerns relating to this practice of granting above-the-title producer credit to individuals solely for contributing or bundling a share of a production's capitalization, specifically by asking whether money-bundling Broadway co-producers are acting as unregistered broker-dealers in violation of applicable Security Exchange Commission (SEC) registration requirements. It concludes that co-producers are engaging in conduct that might trigger registration requirements, including general solicitation of investors, provision of investor advice, and participation in commission-like payment structures.

## I. A Background on Broadway Producing and Securities Regulations

To finance theatrical productions, producers typically form investment vehicles and then sell investment interests in those vehicles. Until 1990, producers structured theatrical syndication financing arrangements via limited partnerships (LPs).[8] The adoption of state legislation during the 1990s, however, authorizing limited liability companies (LLCs),[9] offered producers a "viable alternative financing structure."[10] Today, producers use both LP and LLC arrangements to finance their shows.

If an individual or entity contributes or bundles a large enough share of the production's capitalization, it may receive billing as a co-producer of the production, on marketing materials above the title of the play ("above-the-title producer credit"). Typically, the production will recognize the general partner or managing member as the lead producer by listing his or her name before all others, often on a line of his or her own.[11]

As the sale of investment interests in a LP or LLC constitutes the sale of securities, it may be subject to both state and federal securities regulations.[12] In 1933, Congress passed the Securities Act, the objective of which was (1) to ensure that investors receive certain "significant information concerning securities being offered for public sale" and (2) to "prohibit deceit, misrepresentations, and fraud in the sale of securities."[13] To achieve these objectives, the Securities Act required that securities sold in the United States be registered with the SEC. Generally, registration forms compel advance disclosure of the offering, including a description of the company's business, a description of the security being offered for sale, information about the management of the company, and financial statements certified by independent accountants.[14]

Under authority granted in the New York Arts and Cultural Affairs Law, the New York Department of Law developed its own regulatory scheme, separate from federal registration requirements, specifically related to offerings of theatrical investment interests.[15] Section 23.03(3)(a) of the Law provides:

> [N]o offering of syndication interests in a theatrical production company, as defined herein, shall be made within or from this state without the use of a prospectus or offering circular making full and fair disclosure of material facts pertaining to the particular venture. The attorney general may also issue rules and regulations requiring the submission to prospective investors in such offerings an offering circular and amendments thereto containing a concise and accurate description of the nature of the offering, profits to promoters and others, the background of the producers, a description of subsidiary rights and other pertinent information as will afford potential investors or purchasers and participants an adequate basis upon which to found their judgment[.]

Broadway producers complained that these overlapping state and federal securities regulations increased the cost and time involved in raising the requisite capital for a Broadway show.[16] Fortunately for producers, § 5 of the Securities Act exempts from federal registration requirements certain private offerings made to a limited number of investors, the rules for which are contained in Regulation D. Further, in 1996, Congress passed the National Securities Market Improvement Act (NSMIA), a principal feature of which is "the federal preemption of state securities laws in connection with offerings of securities which comply with the requirements of Rule 506 of Regulation D."[17] Now, theatrical offerings that comply with Rule 506 of Regulation D are exempt from both federal and state registration requirements.

*"In determining whether a person is a broker-dealer or a finder, the SEC considers four principal factors: whether the person (1) actively solicited investors, (2) advised investors as to the merits of an investment, (3) received transaction-based compensation, and (4) regularly participates in security transactions."*

When producers sell equity interests in theatrical productions to investors, they typically try to fit their offerings into the Regulation D, Rule 506 safe harbor.[18] Under Rule 506, a company can be assured that its offering falls within the safe harbor if it: (1) does not use general solicitation or advertising to market the securities, and (2) sells the securities to no more than 35 non-accredited, sophisticated investors.[19] Rule 506 imposes no limitation on the amount of money that companies can raise. Even under Regulation D private offerings, however, companies can neither violate the anti-fraud provisions of federal securities law nor engage unregistered broker-dealers to effectuate transactions for their accounts.[20] The next section will ask whether money-bundling Broadway co-producers are acting as unregistered broker-dealers in violation of the applicable SEC requirements.

## II. Broker-Dealer Regulations

Section 3(a)(4)(A) of the Exchange Act defines a "broker" as "any person engaged in the business of effecting transactions in securities for the account of others." Under §15(a)(1) of the Exchange Act, it is "unlawful for any broker or dealer…to induce or attempt to induce the purchase or sale of any security…unless such broker or dealer is…registered" with the SEC.[21]

"A person or entity may perform a narrow scope of activities without triggering broker/dealer [sic] registration requirements."[22] Through the issuance of several no-action letters, the SEC has differentiated "broker-dealers" from "finders," which are "persons who do nothing more than introduce prospective investors to the issuer."[23] A finder "will be performing the functions of a broker-dealer, triggering registration requirements, if activities include: analyzing the financial needs of an issuer, recommending or designing financing methods, involvement in negotiations, discussion of details of securities transactions, making investment recommendations, and prior involvement in the sale of securities."[24] The finder/broker distinction is analyzed under a four-factor test, described below.

### A. The "Broker-Dealer" Test

In determining whether a person is a broker-dealer or a finder, the SEC considers four principal factors: whether the person (1) actively solicited investors, (2) advised investors as to the merits of an investment, (3) received transaction-based compensation, and (4) regularly participates in security transactions.[25] No one factor is dispositive, and a person need not meet all four factors to be considered a broker-dealer. "A 'yes' answer to any of these factors indicates that registration may be required."[26]

## III. Applying the "Broker-Dealer" Test to the Activities of Broadway Co-Producers

### A. Conduct That Falls Outside the Scope of the "Broker-Dealer" Definition

Not all Broadway co-producers actively bundle money from investors. Tony Award®-winning Broadway producer Barbara Whitman explains that co-producers often just write a check to cover their units of the capitalization.[27] As these co-producers do not raise money from third parties, they fall outside of the scope of the "broker-dealer" definition.

Similarly, a grouping of investors might choose to form a syndicate, an "investment vehicle" that permits multiple individuals to co-invest under one collective name.[28] When a syndicate invests in a Broadway production, the production will generally make any financial distributions directly to that collective entity, which is then responsible for proportioning the distributions amongst the syndicate's investors.[29] As a lead producer will deal directly with an investing syndicate, there exists no middleman to trigger broker-dealer registration requirements.[30]

### B. Factor (1): Active Solicitation

The first factor of the broker-dealer test asks whether the intermediary in a transaction for the sale of securities engaged in active solicitation of potential investors. The SEC generally defines "solicitation" in the context of broker-dealer regulation as "any affirmative effort by a broker or dealer intended to induce transactional business for the broker-dealer or its affiliates."[31] General solicitation includes, but is not limited to: "(1) Any advertisement, article, notice or other communication published in any newspaper, magazine, or similar media or broadcast over television or radio; and (2) Any seminar or meeting whose attendees have been invited by any general solicitation or general advertising."[32]

*"Others share posts on Facebook, visible to both friends and public groups, advertising opportunities to invest on Broadway."*

It is immaterial under the broker-dealer test whether the intermediary solicits potential investors or actual investors. In 2008, Brumberg, Mackey & Wall (BMW) considered entering into an agreement with Electronic Magnetic Power Solutions (EMPS), whereby BMW would help EMPS raise funds to finance its operations in return for a percentage of the gross amount raised. Requesting a no-action letter concerning its conduct as an unregistered broker-dealer, BMW explained that it would introduce to EMPS only "individuals and entities '*who may have an interest*' in providing financing to EMPS through investments in equity or debt instruments of EMPS."[33] The Division of Trading and Markets, however, advised that it was unable to assure BMW that it would not recommend enforcement action:

> The Staff believes that the introduction to EMPS of only those persons with a potential interest in investing in EMPS's securities implies that BMW anticipates both "pre-screening" potential investors to determine their eligibility to purchase the securities, and "pre-selling" EMPS's securities to gauge the investors' interest.…[T]he Staff believes that your proposed activities would require broker-dealer registration.[34]

Often, experienced Broadway producers do not actively solicit investors, either actual or potential.[35] Already branded as industry insiders, these producers have circles of friends and colleagues who turn to the producers to signal their own interest in investing in a Broadway show. Many other Broadway co-producers, however, exhibit conduct that would probably meet the SEC's definition of active solicitation.

Some producers send mass e-mails describing investment opportunities to friends and colleagues whom they may not even know personally, such as: "Hey everybody, I'm working on this really great show…I saw it at NAMT[36] and signed up immediately. [Investment] units [start at] $25 thousand—let me know if you're interested."[37] Others share posts on Facebook, visible to both friends and public groups, advertising opportunities to invest on Broadway. A search on Facebook using combinations of the terms "Broadway," "investment," "opportunity," and "producer" reveals many such examples of this practice:

> An American in Paris is on Turner Classic Movies 2pm today…if you are interested in investing in the new Broadway Musical (An American in Paris – The Musical), we are down to the last few shares ($25,000) buy in… Call/text [contact information omitted] or email me here or at [contact information omitted] with your email address if interested or if any questions! (It's a Great Experience to make $ investing/producing Broadway Musicals, plus the perks of opening night, Opening Night Cast Party, etc…)[38]

> If you haven't seen it yet, check out the awesome initial TVC teaser for The Visit Musical which opens on Broadway this March, starring the inimitable Chita Rivera! I'm incredibly excited to be part of the producing team and am happy to discuss further with anyone that might be interested in investing in the production. Drop me a line and say hi![39]

This conduct likely meets the SEC's definition of "solicitation" and could therefore trigger broker-dealer registration requirements. Section 502(c) of the Securities Act does not enumerate e-mails and social media postings as examples of solicitation; nonetheless, the SEC identified them as such. The SEC has singled out unregistered brokers for targeting investors via both individual e-mails[40] and mass e-mail campaigns.[41] In a recent case, the SEC charged an unregistered broker for advertising investment opportunities on LinkedIn.[42]

Further, although the JOBS Act amended Rule 506 to permit general solicitation in private placements, it did not waive broker registration requirements for such transactions. The SEC clarified this distinction in *In the Matter of Anthony Fields*:

> Fields was a broker according to his own description—he described himself as an intermediary who introduced a buyer and seller and expected to receive commissions on transactions that occurred. The evidence of record contains examples of his attempts to broker transactions in instruments that he had advertised on social media.…Fields argues that he was not required to be registered as a broker because the contemplated transactions were private placements. *This argument confuses the exemption from registration of instruments that can be the subject of private placements with the requirement for a broker to be registered.* Accordingly, Fields violated Exchange Act Section 15(a)(1).[43]

### C. Factor (2): Investor Advice

The second factor of the broker-dealer registration test asks whether the intermediary advised the investor as to the merits of the investment. The SEC defines investor advice as discussions about "the advisability of investing in, or…reports or analyses as to, specific securities or specific categories of securities."[44] Rule 202(a)(11)-1 of the Investment Advisers Act of 1940 exempts from advisor registration "advice that is solely incidental to the broker-dealer's business or account," such as advice as to whether investors "enter or to stay out of the market in general."[45] However, any "recommendation" or "endorsement" of "specific securities" will constitute investment advice.[46]

*"As a rule, adjusted net profits are split '50-50' between the producers and investors."*

Theatrical attorneys counsel managing producers to prohibit their co-producers from offering investors any information that the SEC might consider to be investor advice under the broker-dealer registration test: "The producer's instructions to the co-producer are 'Don't give any projections other than the projections that we provide you with,' and presumably the managing producer doesn't continue to work with anyone who they feel is not observing [those instructions].'"[47] However, co-producers do not always follow such instructions:

> You try as best you can [to regulate what a co-producer can and cannot say]. I personally try to bring in people who I feel will accurately represent the show. Many people are not able to control their co-producers that much…and we have had issues with people [exaggerating] their involvement in the show and the show's [financial] prospects.[48]

Take, for example, the following Facebook solicitation:

> It's very rare to get an opportunity to invest & produce a future Broadway Hit Musical, we are bringing Anastasia to Broadway late next year, if you know anyone who has $25,000 or more to invest or if you want to buy in, call/text me [contact information omitted]!!! A number of experts thought we could beat Hamilton for the Tony, but we will enter the race the following years to increase our chances which will lead to a longer and more Successful run.[49]

Here, the producer does not just advertise the existence of an investment opportunity; she also offers projections about the show's commercial prospects, referring to it as a "future Broadway hit" that will likely enjoy a "long" and "successful" run. Although the producer likely considered her post an innocuous promotion, the SEC might read it as intending to educate prospective investors "as to the value of the securities involved," which constitutes investment advice that may trigger broker-dealer registration requirements.[50] Any representation that a co-producer makes to a potential investor outside of the representations explicitly contained in the offering papers might qualify as investor advice under this second factor.

### D. Factor (3): Transaction-Based Compensation

The third factor asks whether the intermediary received "transaction-based compensation," which is defined as a "commission" paid to the intermediary for effectuating a transaction.[51] In a 2010 no-action letter, the SEC opined that the receipt of transaction-based compensation alone, without any of the other three factors, "triggers the broker registration requirement."[52] Although the 2010 position is "neither legally binding nor persuasive," it signals the importance of this third factor.[53]

Money-bundling Broadway co-producers are typically compensated post-recoupment from a production's adjusted net profits.[54] "Adjusted net profits are the weekly operating profits available for distribution to the producer and the investors after payment of net profits to third parties, such as stars, authors [and] underlying rights owners[.]"[55] As a rule, adjusted net profits are split "50-50"[56] between the producers and investors.[57] "The money paid to the investors is divided pro rata and pari passu (at the same time) among them in accordance with the respective amounts contributed by each."[58] For purposes of example, if an investor invests $100,000 in a production capitalized at $1 million, he or she will be entitled to 10% of the investor's share of adjusted net profits, equal to five percent of the total adjusted net profits. Similarly, the money payable to producers is usually divided pro rata in accordance with their respective amounts raised.[59] Sometimes, producers will choose to allocate a portion of their adjusted net profits to an investor, often as a "kicker" to incentivize investor participation at a certain monetary level.[60]

The theatre industry is of the opinion that this form of producer compensation does not qualify as transaction-based compensation:

> It would only be somebody who was inexperienced in the Broadway world who would propose to compensate a bundler with anything other than a share of adjusted net profits…. What you don't have in theater…is people who are paying bundlers a percentage of the money that they raised.…What's the distinction between somebody who is getting paid on the basis of a classic commission vs. the arrangement that we have which is payment out of the producer's share of adjusted net profits?…What we've gotten ourselves comfortable with is the notion that whatever arrangement is being made with this bundler has no impact on investors.…No investor's capital contribution is being diminished by a fee that is being paid.…No harm, no foul.[61]

The theatre industry distinguishes producer compensation from transaction-based compensation because it is not taken off the top of the investor's capital contribution. Legal precedent, however, suggests that producer compensation out of a share of the adjusted net profits would, in fact, meet the SEC's definition of "transaction-based compensation."

First, federal courts have equated "transaction-based compensation" with a "commission,"[62] which Black's Law Dictionary defines as "a fee paid to an agent or employee for a particular transaction, usually as a percentage of the money received from the transaction."[63] Although this definition indicates that a "commission" usually takes the form of an off-the-top payment, it does not expressly limit the term to such.

Second, the underlying concern of "transaction-based compensation" is not that it will diminish an investor's capital contribution, but rather that it "represents a potential incentive for abusive sales practices that registration is intended to regulate and prevent."[64] If an intermediary is to receive a fee for effectuating a transaction, that intermediary may be incentivized to misrepresent the value of the security or securities involved, thereby increasing the likelihood that the investor actually invests. As such, the key inquiry regarding intermediary compensation is whether such compensation is tied to the transaction—i.e., compensation paid only if the transaction closes. The only form of intermediary compensation unlikely to trigger broker registration requirements is a fee paid to a finder solely for introducing a potential investor to an issuer, regardless of whether or not that investor actually invests.

A co-producer is compensated only if he or she actually effectuates the transaction. In fact, a co-producer will often receive a larger share of the adjusted net profits, the more money he or she raises. Accordingly, producer compensation out of the producer's share of adjusted net profits will likely meet the definition of "transaction-based compensation" under factor (3) of the broker-dealer registration test.

### E. Factor (4): Regular Participation in Securities Transactions

The final factor of the SEC's broker-dealer registration test asks whether the intermediary regularly participates in securities transactions. "The SEC is concerned that persons who have been barred from engaging in the purchase or sale of securities will attempt to operate as 'finders' in order to evade registration requirements. As such, a finder's prior experience in dealing securities…can trigger registration requirements[.]"[65] "Regularity of participation has been demonstrated by…the dollar amount of securities sold…and the extent to which advertisement and investor solicitation were used."[66] If an intermediary solicits an investment "on a single, isolated basis… such person might not be acting as a 'broker' or 'dealer' as these terms are defined in…the Securities Exchange Act of 1934."[67] However, "if such activity is engaged in more often than on a single isolated basis," broker-dealer registration may be required.[68]

When an individual or entity solicits investments for a single production, such conduct would be unlikely to equate to regular participation. Of note, in *Somerset Communications Group v. Wall to Wall Advertising*, the court found that an entity formed for the sole purpose of purchasing units in a *single* company, and issuing those units to investors, was not regularly participating in the securities market.[69] If a producer, however, is actively engaged in the Broadway business, he or she might meet the participation threshold for registration. "Nobody does this for a living, but many people do it on a regular basis."[70]

## IV. Consequences of Using an Unregistered Broker

An investor who purchases a unit of a production's capitalization through an unregistered broker may be entitled to rescission of the investment agreement. Whereas §15(a) of the Exchange Act prohibits a broker from buying or selling securities without registering with the SEC, § 29(b) (codified as 15 USC § 78cc (b)) provides a remedy for violations of §15(a):

> Every contract made in violation of any provision of this chapter or of any rule or regulation thereunder…shall be void (1) as regards the rights of any person who, in violation of any such provision, rule, or regulation, shall have made or engaged in the performance of any such contract, and (2) as regards the rights of any person who, not being a party to such contract, shall have acquired any right thereunder with actual knowledge of the facts by reason of which the making or performance of such contract was in violation of any such provision, rule, or regulation.

There exists judicial uncertainty as to the reach of §9(b). In *Zerman v. Jacobs*, the U.S. District Court for the Southern District of New York held that under §29(b), "only unlawful contracts may be rescinded, not unlawful transactions made pursuant to lawful contracts."[71] Under the *Zerman* holding, an investor cannot base a rescission right upon a broker's failure to register, provided that the investment agreement is itself lawful. Later courts, however, have narrowed this ruling,[72] and the American Bar Association Task Force Report on private placement broker-dealers suggests that the language in §29(b) is broad enough to offer investors a rescission right:

> This section suggests that in any civil litigation an unregistered agent acting on behalf of the issuer will be compelled to return their commissions, fees and expenses; and that the issuer may justifiably refuse to pay commissions, fees and expenses at closing or recoup them at a later time.…The investor may also be entitled to return of his or her investment, since the purchase contract between the issuer and the investor is a contract which is part of an illegal arrangement with the unregistered financial intermediary, and that intermediary is engaged in the offer and sale of the security to the investor. The language to Section 29(b) is broad enough to permit such an interpretation.[73]

Ultimately, an issuer who employs an unregistered broker to sell a security runs the risk of having to return the purchase price to the investor. Even if an investor does not demand rescission, use of an unregistered broker can expose the issuer to a civil fine or penalty,[74] and to enhanced SEC regulatory action in connection with future offerings, "for aiding and abetting the [intermediary's] violation of the SEC broker-dealer registration requirements."[75]

## V. Conclusion

Although responsible attorneys and producers are certain to include appropriate disclosures in theatrical offering papers and comply with blue sky filings, they rarely consider the requirement that intermediaries acting as broker-dealers register with the SEC. An experienced theatrical attorney who wishes to remain anonymous explains: "Nobody really wants the technically correct answer to the [broker-dealer] question, because that is how the theatrical financing business pretty much works these days, [and] nobody wants to hear that it is fraught with legal issues that might question that mode of operation."[76] Some in the industry contend that the SEC and New York Attorney General are unlikely to ever take regulatory action against Broadway producers,[77] as they have "bigger fish to fry." Might these regulatory bodies, however, shift their attention to the Great White Way?

*"Most significantly, Broadway co-producers should stop publicly soliciting investors, either through social media or via e-mail, and avoid advising investors as to the value of the securities involved, specifically by making projections about a production's financial prospects."*

The Broadway industry has witnessed a number of fundraising scandals over the past few years. In 2012, a Long Island stockbroker defrauded producers of the musical *Rebecca*, convincing them that he was raising $4.5 million from investors who turned out to be phantoms.[78] The middleman was arrested and the show was never able to complete its fundraising for Broadway. In 2016, an investor pulled his funds from the musical *Nerds* just weeks before it intended to open,[79] forcing the lead producer to cancel the show without the ability to pay back creditors for funds already spent.[80] Each scandal increases the likelihood that Broadway investors agitate for regulatory change.[81] Still, as Broadway shows become more expensive, lead producers are unlikely to stop recruiting co-producers to raise portions of their capitalizations. How, therefore, can the industry avoid the drawbacks associated with this growing practice?

Veteran Broadway producer David Stone suggests that co-producers will be unwilling to ever register as brokers with the SEC,[82] which is a complicated and expensive process that requires applicants to complete a test demonstrating competence in securities activities and to pay annual fees.[83] However, Mr. Stone advises lead producers to instruct co-producing partners to refrain from conduct that might trigger registration requirements. Most significantly, Broadway co-producers should stop publicly soliciting investors, either through social media or via e-mail, and avoid advising investors as to the value of the securities involved, specifically by making projections about a production's financial prospects.

As every Broadway aficionado knows, "the show must go on," and money-bundling Broadway co-producers have become essential players in raising the requisite capital to get a show from page to stage. If Broadway co-producers were required to register as brokers with the SEC, these individuals might—to the detriment of the entire industry—pull out of the fundraising game entirely. Still, with an increased awareness of federal fundraising requirements, the industry can self-regulate, to avoid the legal penalties of using unregistered intermediaries in the financing process.

## Endnotes

1. Patrick Healy, *The Staggering Cost of Broadway*, The New York Times (July 21, 2011), *available at* http://artsbeat.blogs.nytimes.com/2011/07/21/the-staggering-cost-of-broadway/?_r=0.
2. Martin Banham, *The Cambridge Guide to Theatre*, 1150 (Cambridge University Press 1995).
3 Ken Davenport, *What's the Average Cost of Putting on a Broadway Show?*, The Producer's Perspective (June 2012), *available at* https://www.theproducersperspective.com/my_weblog/2012/06/whats-the-average-cost-of-putting-on-a-broadway-show.html.
4. Patrick Healy, *I Want to Be a Producer (Me Too!)*, The New York Times (Aug. 15, 2014), *available at* http://www.nytimes.com/2014/08/17/theater/on-broadway-today-a-name-above-the-title-isnt-that-hard.
5. Michael Paulson, *'Gentleman's Guide' Kills It in Final Week on Broadway*, The New York Times (Jan. 19, 2016), *available at* http://artsbeat.blogs.nytimes.com/2016/01/19/gentlemans-guide-kills-it-in-final-week-on-broadway/?_r=0.
6. Healy, *supra* note 4.
7. *Id*.
8. Limited partnerships are run by general partners, who pool the capital of limited partners to form the investment vehicle.
9. Limited liability companies are run by managing members, who pool the capital of investment members to form the investment vehicle.
10. Elliot H. Brown & Daniel M. Wasser, *A Practical Guide to Theatrical Financing* (Sep. 1, 1998), *available at* http://fwrv.com/articles/100642--a-practical-guide-to-theatrical-financing.html.
11. *Id*. at 193.
12. *Id*.
13. U.S. Securities and Exchange Commission, *The Laws That Govern the Securities Industry*, (Oct. 1, 2013), *available at* https://www.sec.gov/about/laws.shtml.
14. *Id*.
15. Brown & Wasser, *supra* note 10.
16. *Id*.
17. *Id*.
18. Jason Baruch, *Exit Sage Left, Enter Stage Right: Theatre Trends Over the Past 25 Years*, Sendroff & Baruch, LLP, *available at* http://sendroffbaruch.com/exit-stage-left-enter-stage-right-theatre-trends-over-the-past-25-years/.
19. Section 501 of the Securities Act defines an "accredited investor" as any person "whose individual net worth, or joint net worth with his or her spouse, exceeds $1,000,000." A non-accredited, sophisticated investor, as defined under § 505, is any person whose net worth is below $1,000,000 but who has "sufficient knowledge and experience in financial and business matters to [be] capable of evaluating the merits and risks of the prospective investment." *See* U.S. Securities and Exchange Commission, *Fast Answers: Rule 506 of Regulation D* (Oct. 6, 2014), *available at* https://www.sec.gov/answers/rule506.htm.
20. Steven R. Watts, *SEC Cracks Down on Unregistered Broker-Dealers in Private Offerings*, 42 Sec. Reg. L. J. 1 (Spring 2014).
21. Internal punctuation omitted.
22. Cornhusker Energy Lexington, LLC v. Prospect St. Ventures, No. 8:04CV586, 2006 WL 2620985, at *6 (D. Neb. Sept. 12, 2006).
23. Watts, *supra* note 20.
24. *Cornhusker*, 2006 WL 2620985 at *6.
25. Watts, *supra* note 20; *see also* Steve Ganis, *Securities Offerings*, 25 Insights 6 (June 2011); *In the Matter of David C. Sorrells, Respondent.*, Release No. 31265 (Sept. 25, 2014) (finding that the respondent violated § 15(a) of the Exchange Act because he "(1) directly and regularly solicited current and prospective insurance clients for investments in Arete and the Snisky PIVs; (2) advised prospective investors on the specific details and merits of the investments; (3) received transaction-based compensation for bringing in money from investors; and (4) participated at key points in the investment chain.").
26. Watts, *supra* note 20.
27. Interview with Barbara Whitman and Tom Casserly, Broadway Producers, in New York, NY (July 26, 2016).
28. *See* Startup Xplore, *The Basics of Startup Syndicate Funding*, *available at* https://startupxplore.com/en/blog/basics-startup-syndicate-funding/.
29. Interview with Barbara Whitman and Tom Casserly.
30. Interview with an experienced theatrical attorney who wishes to remain anonymous (Aug. 2, 2016).
31. Robert J. Haft & Michelle Hudson, Analysis of Key SEC No-Action Letters § 9:18 (Westlaw).
32. 17 C.F.R. § 230.502(c).
33. *Brumberg, Mackey & Wall, P.L.C.*, 2010 WL 1976174, at *3 (S.E.C. No—Action Letter May 17, 2010) (emphasis added).
34. *Id*. at *2.
35. Anonymous interview, *supra* note 30.
36. National Alliance for Musical Theatre.
37. Interview with Barbara Whitman and Tom Casserly.
38. Posted on November 2, 2014.
39. Posted on February 18, 2015.
40. *See* S.E.C. v. Helms, No. A-13-CV-01036 ML, 2015 WL 6438872, at *2 (W.D. Tex. Oct. 20, 2015) ("In support of this argument, Barrera offers no new evidence to rebut the emails and deposition testimony previously submitted by the SEC. This previously submitted evidence establishes…Sellers subsequently copied Barrera on…an email solicitation offering Moore a second investment opportunity, the "Vesta" portfolio (in which Moore/Vendetta never invested)."); *see also* S.E.C. v. Mapp, Fed. Sec. L. Rep. P 99429 (Oct. 7, 2016) ("The Commission first alleges that Paxton violated Section 17(b) by forwarding one of Mapp's promotional emails to a potential investor on July 23, 2011.").
41. *See* S.E.C. v. Alternate Energy Holdings, Inc., No. 1:10-CV-00621-EJL, 2014 WL 2515710, at *1 (D. Idaho May 13, 2014) ("[T]he SEC alleges the Defendants used mass email distributions of offering documents called Private Placement Memoranda (PPMs) and other materials to solicit potential investors through supporters,

paid promoters, and other finders; inviting them to forward the PPMs on to potential investors.").

42. In the Matter of Anthony Fields, CPA d/b/a Anthony Fields & Assocs. & d/b/a Platinum Sec. Brokers, Release No. 474 (Dec. 5, 2012) ("LinkedIn is an online social network with a business to business (B2B) emphasis. LinkedIn has various discussion groups that users, such as Fields, can join. Such social media sites are an efficient way to reach potential investors. Fields advertised the availability of BGs and MTNs on LinkedIn and on two other B2B sites, TradeKey and E-2/Commerce, during 2010 and 2011. Fields's profile on LinkedIn during 2010 and 2011 contained links to AFA's and Platinum's websites.") (internal citations omitted).
43. *Id.* (emphasis added).
44. *Donald F. Pooley*, 1985 WL 52042, at *1 (S.E.C. No-Action Letter Feb. 8, 1985).
45. Kevin Keogh, *Certain Broker-Dealers Deemed Not to Be Investment Advisers*, Banking & Fin. Services Pol'y Rep., June 2005, at 3.
46. *The Inv. Archive, LLC*, 2010 WL 2030233, at *4 (S.E.C. No-Action Letter May 14, 2010).
47. Anonymous interview, *supra* note 30.
48. Interview with Barbra Whitman and Tom Casserly.
49. Posted on July 18, 2015.
50. Ganis, 25 Insights 6 at 5.
51. Cornhusker Energy Lexington, LLC v. Prospect St. Ventures, No. 8:04CV586, 2006 WL 2620985, at *6 (D. Neb. Sept. 12, 2006).
52. *Kramer*, 778 F. Supp. 2d at 1341 n.51.
53. *Id*; *see also* Landegger v. Cohen, No. 11-CV-01760-WJM-CBS, 2013 WL 5444052, at *5 (D. Colo. Sept. 30, 2013) ("Of these factors, some courts have also held that the transaction-based compensation factor is one of the hallmarks of broker status.").
54. *Breglio*, at 167.
55. *Id*.
56. *Id*.
57. Here, the term "producer" refers to any individual or entity who or that bundles money for the production company, including the general partner or managing member of the company. The term "investor" refers to any individual or entity who or that directly contributes funds to the capitalization of the production company. An individual or entity that bundles a unit of the capitalization, part of which includes its own funds, will be considered both a "producer" and an "investor."
58. *Id*.
59. Interview with Steven Chaikelson.
60. *Id*.
61. Anonymous interview, *supra* note 30.
62. *Cornhusker Energy Lexington*, *supra* note 22.
63. COMMISSION, Black's Law Dictionary (10th ed. 2014).
64. *Cornhusker Energy Lexington*, No. 8:04CV586, 2006 WL 2620985, at *6.
65. Ganis, 25 Insights 6 at 5.
66. S.E.C. v. Kenton Capital, Ltd., 69 F. Supp. 2d 1, 13 (D.D.C. 1998) (internal citation omitted).
67. *Joseph Mcculley Sales*, Fed. Sec. L. Rep. P 78,982 (S.E.C. No-Action Letter Sept. 1, 1972).
68. *Id*.
69. Somerset Commc'ns Grp., LLC v. Wall to Wall Advert., Inc., No. C13-2084 JCC, 2016 WL 4063938, at *1 (W.D. Wash. Jan. 28, 2016) ("[T]he only securities transactions properly before the Court are Somerset's purchase of units in Fourpoints, and Somerset's issuance of its own units to investors. This does not equal the 'regularity of participation' that would have required Somerset… to register as a dealer.").
70. Anonymous interview, *supra* note 30.
71. Zerman v. Jacobs, 510 F. Supp. 132, 135 (S.D.N.Y.), *aff'd*, 672 F.2d 901 (2d Cir. 1981).
72. *See* Reg'l Properties, Inc. v. Fin. & Real Estate Consulting Co., 678 F.2d 552, 560 (5th Cir. 1982) ("Interpreting section 29(b) to render voidable those contracts that are either illegal when made or as in fact performed not only avoids these problems but also, in our view, most nearly comports with the language used in section 29(b).").
73. The Task Force on Private Placement Broker-Dealers, ABA Section of Business & Law, Report and Recommendations of the Task Force on Private Placement Broker-Dealers, 60 Bus. Law. 959, 999 (2005).
74. United States Sec. & Exch. Comm'n v. Collyard, 154 F. Supp. 3d 781 (D. Minn. 2015).
75. *Id*.
76. Anonymous interview, *supra* note 30.
77. Interview with John Pinckard, Theatre Producer, in New York, NY (Feb. 13, 2017).
78. Lorne Manly, *'Rebecca' Publicist Loses Round in Lawsuit Over Show's Travails*, The New York Times (May 12, 2015), *available at* https://artsbeat.blogs.nytimes.com/2015/05/12/rebecca-publicist-loses-round-in-lawsuit-over-shows-travails/?src=twrhp.
79. Michael Riedel, *Spring on Broadway will be a bloodbath for new musicals*, New York Post (Mar. 10, 2016), *available at* http://nypost.com/2016/03/10/spring-on-broadway-will-be-a-bloodbath-for-new-musicals/.
80. Michael Riedel, *Money scandals roils Broadway's canceled 'Nerds,'* New York Post (Mar. 25, 2016), *available at* http://nypost.com/2016/03/25/money-scandal-roils-broadways-cancelled-nerds/.
81. Interview with John Pinckard.
82. Interview with David Stone.
83. U.S. Securities and Exchange Commission, *Guide to Broker-Dealer Registration* (April 2008), *available at* https://www.sec.gov/divisions/marketreg/bdguide.htm.

**David Manella is a JD/MFA Candidate at Columbia Law School and School of the Arts and is currently the Editor-in-Chief of the *Columbia Journal of Law & the Arts*. He received a B.A. in Government from Harvard.**
**The author thanks Andrew Farber for his inspiration and guidance; Steven Chaikelson, Barbara Whitman, David Stone, and Tom Casserly for their invaluable insights; and Oliver Roth and Simon de Carvalho for their comments and support. A fuller version of this article will be published in 41.4 *Columbia Journal of Law & the Arts* (2018).**

NEW YORK STATE BAR ASSOCIATION

# NYSBA 2018 Membership Application

Please check the appropriate box: ☐ **I wish to join the New York State Bar Association** ☐ **I wish to reactivate my membership**
☐ **I wish to join the Sections checked below *(NYSBA membership required)***

## ENROLLMENT INFORMATION

Name ______________________________

Address ______________________________

______________________________

City ____________ State ______ Zip ________

The above address is my ☐ Home ☐ Office ☐ Both

Please supply us with an additional address.

Address ______________________________

City ____________ State ______ Zip ________

Office phone ( ______ ) ______________

Home phone ( ______ ) ______________

E-mail address ______________________

Fax number ( ______ ) ______________

Date of birth ______ /______ /______

Law school ______________ Graduation date ______

States and dates of admission to Bar: ______________

## DUES PAYMENT

| | |
|---|---|
| Association Membership Dues | |
| Section Dues *(Optional)* | $ |
| **TOTAL ENCLOSED :** | $ |

METHOD OF PAYMENT: ☐ Check (payable in U.S. dollars) ☐ AIP (see reverse)
☐ MasterCard ☐ Visa ☐ American Express ☐ Discover

Account Number ☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐

Expiration Date ______________ Date ________

Signature ______________________________

***New members: Please include proof of your admission to the practice of law.***

*Please return this application to:* **MEMBER RESOURCE CENTER**
New York State Bar Association, One Elk Street, Albany NY 12207
Phone 800.582.2452/518.463.3200 • FAX 518.463.5993
E-mail mrc@nysba.org • www.nysba.org

## ANNUAL MEMBERSHIP DUES *(check One)*

Class based on first year of admission to bar of any state.
Membership year runs January through December.

**ACTIVE/ASSOCIATE IN-STATE ATTORNEY MEMBERSHIP**

| | |
|---|---|
| ☐ Attorneys admitted 2010 and prior | $275 |
| ☐ Attorneys admitted 2011-2012 | 185 |
| ☐ Attorneys admitted 2013-2014 | 125 |
| ☐ Attorneys admitted 2015 - 3.31.2017 | 60 |

**ACTIVE/ASSOCIATE OUT-OF-STATE ATTORNEY MEMBERSHIP**

| | |
|---|---|
| ☐ Attorneys admitted 2010 and prior | $180 |
| ☐ Attorneys admitted 2011-2012 | 150 |
| ☐ Attorneys admitted 2013-2014 | 120 |
| ☐ Attorneys admitted 2015 - 3.31.2017 | 60 |

**OTHER**

| | |
|---|---|
| ☐ Sustaining Member | $400 |
| ☐ Affiliate Member | 185 |
| ☐ Newly Admitted Member* | FREE |
| ☐ Law Student Member | FREE |

**DEFINITIONS**

Active In-State = Attorneys admitted in NYS, who work and/or reside in NYS
Associate In-State = Attorneys not admitted in NYS, who work and/or reside in NYS
Active Out-of-State = Attorneys admitted in NYS, who neither work nor reside in NYS
Associate Out-of-State = Attorneys not admitted in NYS, who neither work nor reside in NYS
Sustaining = Attorney members who voluntarily provide additional funds to further support the work of the Association
Affiliate = Person(s) holding a JD, not admitted to practice, who work for a law school or bar association
*Newly admitted = Attorneys admitted on or after April 1, 2017
Law Students = Person(s) enrolled in an ABA accredited law school (includes law graduate students, within 2 years of graduation only, awaiting admission)

## SECTIONS — I WISH TO JOIN THE FOLLOWING SECTION(S):

| | |
|---|---|
| ☐ Antitrust* | $30. |
| ☐ Business Law** | 25. |
| ☐ Commercial & Federal Litigation* | 40. |
| ☐ Corporate Counsel* | 30. |
| ☐ Criminal Justice+ | 35. |
| ☐ Dispute Resolution*** | 35. |
| ☐ Elder Law & Special Needs* | 30. |
| ☐ Entertainment, Arts & Sports Law* | 35. |
| ☐ Environmental & Energy Law* | 35. |
| ☐ Family Law* | 35. |
| ☐ Food, Drug & Cosmetic Law* | 25. |
| ☐ General Practice** | 25. |
| ☐ Health Law** | 30. |
| ☐ Intellectual Property Law* | 30. |
| ☐ International† | 35. |
| ☐ Judicial | 25. |
| ☐ Labor & Employment Law** | 35. |
| ☐ Local & State Government Law* | 30. |
| ☐ Real Property Law+ *(Attorneys admitted 5 years or less are $10)* | 40. |
| ☐ Senior Lawyers *(Focus on Attorneys age 55 and over)* | 20. |
| ☐ Tax* | 25. |
| ☐ Torts, Insurance, & Compensation Law** | 40. |
| ☐ Trial Lawyers**** | 40. |
| ☐ Trusts & Estates Law** | 40. |
| ☐ Young Lawyers *(Law Students, and attorneys admitted less than 10 years)* | 20. |

Section Dues Total $ ________

* Law Student Rate: half price ** Law Student Rate: $5 *** Law Student Rate: $10
**** Law Student Rate: $15 † Law Student Rate: $12.50 +Law Student Rate: FREE

6/17

# Automated Installment Plan (AIP) Enrollment Form

## Save Time with AIP

Now New York State Bar Association (NYSBA) members can save time with direct dues payment. An alternative to writing checks and mailing your membership dues, with AIP you can authorize NYSBA to withdraw payments electronically from your credit card account. Go to **www.nysba.org/AIP** for more information. You can conveniently sign up for AIP on the enrollment form below. It's safe, easy and convenient!

**AUTOMATED INSTALLMENT PLAN (AIP) ENROLLMENT AUTHORIZATION** I hereby authorize NYSBA to instruct my financial institution to deduct directly from my account the amount necessary for my annual membership, per the payment schedule selected below: 1, 2, 3 or 4 payments on or about the 25th of the relative month(s). **All installment payments must be completed by April 30, 2018.** Those opting into the installment payment program in Dec, Jan, Feb or March of the current dues billing year may have their payments consolidated and accelerated to meet this requirement. By selecting the AIP method **I understand this agreement will remain in effect for future membership years, unless I request cancellation in writing to:** NYSBA, Dues Processing, One Elk Street, Albany, NY 12207.

**Total to be debited: $** ☐☐☐.☐☐

Signature: ____________________ Date: ____________

6/17

## Member Information

Name: ____________________ NYSBA Membership ID # : ____________

Address: ____________________

Address: ____________________

City, State, Zip: ____________________

Phone Number: ____________________ E-mail: ____________________

## Payment Schedule

☐ **1** Full Payment ☐ **2** Payments ☐ **3** Payments ☐ **4** Payments

☐ **AIP — Credit/Debit Card Authorization**

Credit Card ☐ AMEX ☐ DISC ☐ MC ☐ VISA

Credit Card Number: ☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐ Exp. Date: ☐☐/☐☐

Authorized Signature: ____________________

**Please return this form to: NYSBA, Member Resource Center, One Elk Street, Albany, NY 12207**
**Phone 800.582.2452/518.463.3200 FAX 518.463.5993**
**E-mail mrc@nysba.org**

**IMPORTANT NOTICE:** Membership dues to the New York State Bar Association are not tax deductible as charitable contributions for income tax purposes. However, they may be tax deductible as ordinary and necessary business expenses subject to restrictions imposed as a result of association lobbying activities. The NYSBA estimates that the non-deductible portion of your 2018 dues which is allocated to lobbying is approximately 2.0%. Portions of your dues payment are allocated toward the annual publication subscriptions for the following: *NYSBA Journal*, $14.75; *New York State Law Digest* $6.25; *State Bar News* $7.25.

# New Hope From an Old Law? Rethinking Television Antipiracy Strategies in the Internet Protocol Television and Over the Top Era

By Raymond J. Dowd and Samuel Blaustein

Copyright lawyers may soon be dusting off an old antipiracy tool. Using a descrambler box to steal cable television became largely a thing of the past when the Federal Communications Act of 1934 (FCA) was held to apply to those infringements. With the growth of Internet Protocol Television (IPTV) as a revenue source and a corresponding rise in Pay TV piracy, in addition to a recent court decision applying this powerful law to new streaming technology, in-house counsel for television broadcasters and content owners should work with outside counsel to rethink antipiracy and litigation strategies.

As new technologies for delivering television and video content over the internet emerge, so too do piracy methods that deprive broadcasters and content owners of revenue. Piracy is traditionally difficult and expensive to identify and police, while law and policing methods have a hard time keeping up with changes in technology and tech-savvy pirates. Many content owners are frustrated with the cost, delay, and burdens associated with the Digital Millennium Copyright Act (DMCA). Pirates move offshore, out of jurisdiction. A recent Sandvine report found that 6.5% of all U.S. households access illegal television-streaming services each month.[1] Now that television viewers are canceling traditional cable and satellite subscriptions in favor of streaming services, it is critical that content producers develop new methods to counteract online piracy to avoid losing revenues.

*"Accordingly, infringers operating around the world are quick to capitalize from these largely unregulated technologies in the United States and elsewhere."*

The FCA provides for statutory damages and mandatory legal fees. A recent victory successfully applied the FCA to IPTV technology for the first time. This suggests that broadcasters and content owners should consider adopting nimble and cost-efficient antipiracy strategies to maximize revenues.

### A. Infringers Take Advantage of the Regulatory Gap and Are Using Emerging Technologies to Violate Content Producers' Rights

Content producers are afforded the exclusive right to perform their works publicly under the Copyright Act, which includes the right to control the transmissions of copyrighted material. Many content producers have suc-

**Raymond J. Dowd**

**Samuel Blaustein**

cessfully litigated against infringers who can be located or who can be shut down through traditional methods.[2] Online infringers who sought to apply novel legal arguments to internet retransmissions failed.[3] However, with new means of stealing television content emerging in the internet age, content owners should look to establish antipiracy strategies to combat piracy operations that may be difficult, expensive or unwieldy to enforce through claims brought under the Copyright Act, DMCA, and Lanham Act.

Recently developed technologies, including over-the-top (OTT) delivery methods and IPTV, enable streaming content to be delivered without the need for a traditional cable or satellite provider.[4] Accordingly, infringers operating around the world are quick to capitalize from these largely unregulated technologies in the United States and elsewhere.[5] Among other things, infringers are using set-top boxes (STB) that are pre-loaded with apps enabling consumers to easily access software that provides end-users access to pirated content broadcast over the internet.

Notice and registration provisions of the Copyright Act and safe harbor provisions of the DMCA have provided significant hurdles for broadcasters seeking to counteract OTT and IPTV piracy. Further complicating the circumstances for content providers is the fact that OTT piracy may originate in a foreign jurisdiction, leaving providers and their counsel struggling with how to tailor anti-piracy efforts to target offshore entities profiting from new technology.[6]

Rather than wait for law enforcement to act, content providers should consider deploying existing legal tools to combat pirates and increase revenues.[7] One potential source of relief is the FCA, 47 U.S.C. §§ 151 *et seq.*, which focuses more on *how* content is acquired, as opposed to the Copyright Act, which requires formalities, such as registration, to successfully assert a claim or qualify for statutory damages and attorneys' fees.[8] The FCA prohibits unauthorized distribution of a satellite or radio communication. By establishing theft, unauthorized distribution of a signal or trading in devices like STBs that enable infringement, a content producer may be able to quickly and effectively target infringers as well as those that aid and abet them, such as payment processors and equipment and software providers, from whom judgments may be enforced.

### B. The FCA Is Applied by the Southern District of New York to IPTV/OTT Infringement

The FCA has long been utilized to combat theft of television signals. For instance, the FCA was used in the 1990s and early 2000s as a powerful tool against consumers stealing cable services through descrambling boxes and other devices.[9] The FCA includes anti-piracy provisions against infringers and those using mechanical devices to make unauthorized retransmissions. The FCA authorizes private rights of action, the recovery of actual or statutory damages, and permits the Court to enhance damages by up to $100,000.00 per violation in cases of willfulness.[10]

> *"According to the Sandvine report, almost 95% of illegal television streaming is completed by using STBs from only a few foreign manufacturers."*

A 2017 case decided by the Southern District of New York suggests that tried-and-true strategies used in pursuing cable television thefts may be viable in the era of OTT and IPTV.[11] Specifically, Judge Barbara Moses found:

> I conclude that the third sentence of § 605(a) does not require pleading or proof that the defendant intercepted a satellite transmission or other radio communication. The statute reaches the unauthorized retransmission of a signal that originated as a satellite transmission, even when it is thereafter received or transmitted over the internet.

In applying the FCA to IPTV delivered by OTT, the court looked to older cases that applied existing laws to novel means of infringing television broadcasting.[12] This lone decision suggests that the FCA may be an effective tool to use against those infringers hiding behind OTT and IPTV technology.

### C. Content Producers Should Establish Anti-Piracy Policy Using Various Methods of Prevention

Telltale signs of piracy include (i) the availability of channels that are exclusively licensed to another provider or not available in a given jurisdiction; (ii) the advertising of "free" or below market prices; (iii) the need to purchase separate hardware; (iv) the need to download or install software to view the content; (v) required prepayment of subscription fees; (vi) a provider's use of "virtual offices" that often house many entities; (vii) inefficient payment methods, such as the requirement of payment in person or over the phone; (vii) low-image and sound quality; and (vii) the origination of the source signal. One of the most important aspects of developing a strong anti-piracy and litigation strategy is for content providers to work in conjunction with an experienced team of lawyers, paralegals and investigators to implement a cost-effective strategy.

There are a number of tools that content providers can use to combat piracy. As part of a comprehensive anti-piracy campaign, content producers should consider pursuing entities selling, importing, or manufacturing the STBs or other infringing devices. According to the Sandvine report, almost 95% of illegal television streaming is completed by using STBs from only a few foreign manufacturers. These often poorly engineered boxes continuously stream the illegal content unless the box is physically turned off, which Sandvine found could lead to users using around one terabyte of "phantom bandwidth" a month.

Other possible tools to combat piracy include pursuing (i) sources of the infringing code, such as web portals and domain registrars, (ii) payment processors involved with the illegal transactions, and (iii) other accomplices, such as local STB distributors. Traditional enforcement methods relied on by copyright holders, such as cease-and-desist letters targeted at app stores, payment processors and content distribution networks (CDNs), may also be considered as part of an anti-piracy plan. Emerging technologies may help in a content producer's initiative to combat piracy. Developing a good rapport with in-house investigators and outside counsel can make the difference between a costly endeavor that yields no results or a proactive measure that increases revenues, gaining positive attention from the C-Suite.

### D. Conclusion

As the cord-cutting movement kicks into high gear in 2018, content providers should be aware of the loss of revenues from television and video piracy. In-house counsel should consider adopting strategies to combat content piracy of waiting. Using the FCA to supplement existing enforcement measures may lead to powerful results.

## Endnotes

1. Sandvine Report, 2017 Global Internet Phenomena Spotlight: Subscription Television Piracy (Oct. 27, 2017), https://www.

sandvine.com/hubfs/downloads/archive/2017-global-internet-phenomena-spotlight-subscription-television-piracy.pdf.

2. Am. Broad. Companies, Inc. v. Aereo, Inc., 134 S. Ct. 2498, 2502 (2014) (citing 17 U.S.C. § 106(4)).

3. Fox Television Stations, Inc. v. FilmOn X LLC, 150 F. Supp. 3d 1, 31 (D.D.C. 2015).

4. As determined by one federal court, "'IPTV' is the electronic delivery of video programming via internet protocol over a service provider's infrastructure—such as AT&T's 'U-verse.' 'OTT' is the delivery of video programming using an internet connection that is not owned, managed, or operated by the party delivering the programming—i.e., Netflix." China Cent. Television v. Create New Tech. (HK) Ltd., No. CV 15-01869 MMM MRWX, 2015 WL 3649187, at *1 (C.D. Cal. June 11, 2015).

5. Traditional cable and satellite providers are "multi-channel programming video distributor" as defined by the Federal Communications Commission (FCC). 47 C.F.R. § 76.1000.

6. Article 29 Working Party publishes Opinion on Review of E-Privacy Directive, Practical Law UK Legal Update 3-631-6346.

7. Ownership of the patents underlying OTT technology were filed in the District of Delaware in 2014 and, after transfer to the Northern District of California and summary motion practice, the claims were settled. OpenTV, Inc. v. Netflix, Inc., No. CV 12-1733 (GMS), 2014 WL 1292790, at *1 (D. Del. Mar. 31, 2014); OpenTV, Inc. v. Netflix Inc., 76 F. Supp. 3d 886, 889 (N.D. Cal. 2014).

8. Fox Broad. Co. v. Dish Network L.L.C., 747 F.3d 1060, 1067 (9th Cir. 2014) (citing Cartoon Network LP v. CSC Holdings, Inc. ("Cablevision"), 536 F.3d 121 (2d Cir.2008) (affirming denial of preliminary injunction because the end user creates the copy, Fox could not establish direct copyright infringement, did not own the copyrights in the advertisements being skipped, and could not prove a likelihood success for secondary copyright infringement)). A motion to compel discovery concerning Dish Network's efforts to create an OTT network was previously denied by the district court. Fox Broad. Co., Inc. v. DISH Network, L.L.C., No. CV 12-04529-DMG (SH), 2014 WL 12558792, at *1 (C.D. Cal. July 30, 2014).

9. Int'l Cablevision, Inc. v. Sykes, 75 F.3d 123, 133 (2d Cir. 1996) (applying FCA to cable descrambling devices); DIRECTV, Inc. v. Bates, 393 F. Supp. 2d 147, 150 (N.D.N.Y. 2005) (applying FCA to pirate access devices (PAD) and awarding statutory damages, including attorneys' fees.

10. 47 U.S.C.A. § 605(e)(3) and (4).

11. Joint Stock Co. Channel One Russia Worldwide v. Infomir LLC, No. 16-CV-1318 (GBD) (BCM), 2017 WL 696126, at *7 (S.D.N.Y. Feb. 15, 2017), *report and recommendation adopted sub nom.* 2017 WL 2988249 (S.D.N.Y. Mar. 27, 2017).

12. *Id. citing Int'l Cablevision, Inc. v. Sykes*, 997 F.2d 998, 1008 (2d Cir. 1993) ("The term 'radio communication,' as used in the Communications Act, has long been understood to include satellite transmissions.").

**Ray Dowd is the author of *Copyright Litigation Handbook* and is an adjunct professor at Fordham Law School, of which he is an alumnus. Sam Blaustein previously served as a law clerk in the Southern District of New York. Together they have successfully litigated many cases involving content owners' rights, including international broadcasting companies, satellite companies and individual creative professionals.**

**The authors are partners of Dunnington Bartholow & Miller LLP in Manhattan. They can be reached via phone at 212-682-8811 and via email at rdowd@dunnington.com and sblaustein@dunnington.com.**

# The Light at the End of the Runway: Clarification of the Conceptual Separability Test May Help Correctly Shift the Balance of Copyright Protection in Favor of Fashion Designers

By Sean McGrath

***Phil Cowan Memorial/BMI Scholarship Award Winning Article***

**Sean McGrath**

At the heart of intellectual property (IP) law is an economic philosophy to incentivize innovation by granting inventors limited monopolies over their creations.[1] This philosophy, however, comes at a cost.[2] Allowing limited monopolies may prevent public access of useful products.[3] Thus, IP law and its different regimes of trademark, patent and copyright, attempt to balance these competing policies and limit the scope and duration of IP rights.[4] Unfortunately for fashion designers, the balance is heavily weighted in favor of granting access of clothing to the public, as opposed to protecting the artistic works created by designers.[5]

The secondary meaning requirement for trademark, and the nonobvious requirement under patent law, render these regimes inadequate for fashion design protection.[6] Traditionally, the useful article limitation of copyright law rendered that unavailable as well.[7] The Copyright Act protects "[p]ictorial, graphic, and sculptural works…but not their mechanical or utilitarian aspects."[8] Since clothing serves the utilitarian function of covering our bodies, "U.S. copyright law does not extend to the design of clothing on the ground that clothing is a 'useful article.'"[9] However, copyright in the design of a useful article may be claimed "if, and only to the extent that, such design incorporates pictorial, graphic, or sculptural features that can be identified separately from, and are capable of existing independently of, the utilitarian aspects of the article."[10] Courts struggled to apply this separability analysis, resulting in myriad subjective tests that forced courts to make "artistic value judgments."[11] Not only could courts not decide on whether to apply the physical or conceptual separability test, but there were at least six different approaches to the application of conceptual separability.[12]

Without proper protection from any of the three intellectual property regimes, U.S. fashion designers cannot competently defend their creations. Moreover, "[d]ue to advances in technology, knock-offs of the latest fashions are coming out of the textile factories in East Asia within hours after the fashions first appear on fashion runways in Paris, Milan, and New York."[13] This is particularly troubling when you consider that "[t]he U.S. apparel market is the largest in the world. In 2015, the market was valued at approximately 359 billion U.S. dollars."[14] Despite the significance of the fashion industry to the U.S. economy, "it appears as though fashion does not matter to the legislature…because American intellectual property law provides virtually no protection for fashion designs."[15] Thus, [d]esign piracy remains a prevalent practice and a significant threat to the growth of American fashion design."[16] However, the recent Supreme Court decision *Varsity Brands* provides hope for fashion designers.[17] In *Varsity Brands*, the Supreme Court articulated a clear standard for a separability analysis, allowing more certainty and more protection for fashion designs under the copyright regime.[18]

Part A of this article explores the minimal intellectual property protection afforded to fashion designers under copyright. It examines the limitations of copyright law that rendered its protection useless in regard to fashion design. Part B illuminates the confusion surrounding the old separability analysis. Part C articulates the new separability test set forth by the Supreme Court in *Varsity Brands*. The new standard clarifies conceptual separability, allowing more certainty under copyright protection for fashion designers. Finally, the conclusion argues that the new standard, although not perfect, provides a better balance between incentivizing innovation and ensuring access to useful products by the public.

## Part A: The Useful Article Limitation and the Physical-Conceptual Separability Distinction

The U.S. Copyright Act protects "[p]ictorial, graphic, and sculptural works…but not their mechanical or utilitarian aspects."[19] Therefore, it does not grant protection to "useful article[s],"[20] which are defined as "an article having an intrinsic utilitarian function that is not merely to portray the appearance of the article or to convey information."[21] In addition, "[a]n article that is normally a part of a useful article is considered a 'useful article.'"[22] Since clothing has the utilitarian functions of covering and protecting our bodies, courts generally find that clothing items are useful articles.[23] However, a narrow exception exists for the patterns and designs on the clothing that can be separately identified from the utility of the clothing.[24]

Courts struggle to apply this separability concept, and until recently have utilized a physical-conceptual distinction that can be traced back to the legislative history of the Copyright Act of 1976.[25]

*"For example, is a wire sculpture formed from one continuous undulating piece of wire that later forms the frame for a bike rack a functional bike rack with some aesthetic features, or an artistic sculpture with the functionality to hold bikes?"*

The useful article doctrine "expresses Congress' desire to *limit the ability of manufacturers to monopolize designs* dictated solely by the function the article is to serve, such that the first manufacturer to adopt the design would have the exclusive right to produce those kinds of products."[26] Further, it "is an attempt to draw a line in the sand between copyright and patent law."[27] Patent law generally covers functional items, while copyright generally handles artistic works.[28] For example, a utility patent covers "any new and *useful* process, machine, manufacture, or composition of matter, or any new and useful improvement thereof."[29] In order to balance the economic incentive of innovation and the strong policy for the public to have access to such functional and useful items, the term of protection is only 20 years from the filing of the patent.[30] To the contrary, the term of protection for an artistic work under copyright law is the life of the author plus 70 years.[31] Keeping these regimes separate becomes problematic when "artistic works are merged with functional items normally covered under patent law."[32] It would be undesirable to allow highly functional products to receive the lengthy term of protection under copyright law merely because they contain some aesthetic qualities, and vice versa.[33] For example, is a wire sculpture formed from one continuous undulating piece of wire that later forms the frame for a bike rack[34] a functional bike rack with some aesthetic features, or an artistic sculpture with the functionality to hold bikes?

In 1976, Congress replaced the "works of art" classification of the Copyright Act of 1909 with the words "pictorial, graphic, and sculptural works."[35] According to the House Report, the House Judiciary Committee was "seeking to draw as clear a line as possible between copyrightable works of applied art and uncopyrighted works of industrial design."[36] The report stated, "[t]he test of separability and independence from 'the utilitarian aspects of the article' does not depend upon the nature of the design…only elements, if any, which can be identified separately from the useful article as such are copyrightable."[37] The Judiciary Committee clarified that "[u]nless the shape of an automobile, airplane, *ladies' dress*, food processor, television set, or any other industrial product contains some element that, *physically or conceptually*, can be identified as separable from the utilitarian aspects of that article, the design would not be copyrighted under the bill."[38] Thus, the physical-conceptual distinction was born.

Although it is an obvious determination that clothing is more than just a decoration, "whether one considers its function to be protecting its wearer from the elements, ensuring modesty, or symbolizing occupation, rank or status," it is not easy to separate the expressive elements.[39] Until recently, courts struggled with "distinguishing the design features from the useful aspects of the article,"[40] applying either a physical separability test or a conceptual separability test.[41] The uncertainty and harsh results of these tests rendered the copyright regime unavailable.[42] However, the recent decision of *Varsity Brands* eliminates the "physical-conceptual distinction," and applies a more flexible analysis tilting the scales of justice back to a more level footing.[43]

### Part B: Court Confusion Surrounding the Separability Analysis

The physical separability test is satisfied when "[a]n expressive element of a useful article … can stand alone from the article as a whole and if such separation does not impair the utility of the article."[44] After Congress passed the revised Copyright Act of 1976, courts disagreed about whether to apply physical separability or conceptual separability, or both.[45] At least one court refused to apply a conceptual separability analysis, holding that the expressive elements of an outdoor lamp with an artistic round bottom could not be physically separated from the overall shape of the lamp.[46] Since then courts have applied both physical and conceptual separability tests, but "there are a few examples where a two-dimensional design is physically separable from a useful article."[47] Moreover, it is difficult to apply this test to clothing, as physically removing pieces of the clothing might impede its function of covering the body. Thus, courts have generally approached clothing from a conceptual standpoint.

In addition, "[c]ontroversy persist[ed] over the proper formulation and application of the conceptual separability standard."[48] Judge Newman's dissent in *Barnhart* recognized three ways to apply conceptual separability before ultimately creating the temporal displacement test, including a "usage approach," a "primary and subsidiary" approach, and a "market approach."[49] Additionally, in *Brandir*, the court considered three different standards in applying conceptual separability, including the temporal displacement test, Winter's test, and Denicola's test.[50] Thus, the Second Circuit correctly stated that conceptual separability was "alive and well," but the problem was "determining exactly what it [was] and how it [was] to be applied."[51]

The temporal displacement test was announced by Judge Newman in the dissenting opinion of *Barnhart*.[52]

The Second Circuit was faced with applying conceptual separability to mannequin torsos.[53] The creator of the mannequin torsos applied for copyright registration of four life-size, three-dimensional representations of the front of a human chest.[54] Two of the chests were of males and two of the chests were of females, and for each gender, one form represented a nude chest, and the other a chest clad with a shirt or a blouse.[55] The majority held that the mannequin torsos were not copyrightable, because "the features claimed to be aesthetic or artistic, e.g., the life-size configuration of the breasts and the width of the shoulders, [were] inextricably intertwined with the utilitarian feature, the display of clothes."[56] Contrary to the majority, Judge Newman believed that the expressive features of the mannequins could be conceptually separated from their utilitarian aspects.[57] Both the majority and dissent recognized that "[e]ach of the four forms… [were] indisputably a 'useful article' as that term is defined in section 101 of the Act, 17 U.S.C. § 101 (1982), since each ha[d] the 'intrinsic utilitarian function' of serving as a means of displaying clothing and accessories to customers of retail stores."[58] Therefore, the issue became "whether the designs of these useful articles have 'sculptural features that can be identified separately from, and are capable of existing independently of, the utilitarian aspects' of the forms."[59]

*"The uncertainty and confusion surrounding the separability analysis rendered copyright protection inadequate for clothing designers."*

Judge Newman recognized three ways to approach conceptual separability before applying his own temporal displacement test. First, he recognized a "usage" approach, where "[a]n article used primarily to serve its utilitarian function might be regarded as lacking 'conceptually separable' design elements even though those design elements rendered it usable secondarily solely as an artistic work."[60] However, the danger in this approach was "that it would deny copyright protection to designs of works of art displayed by a minority because they [were] also used by a majority as useful articles."[61] Judge Newman declined to apply this test, since the "copyrightable design of a life-size sculpture of the human body should not lose its copyright protection simply because mannequin manufacturers copy it, replicate it in cheap materials, and sell it in large quantities to department stores to display clothing."[62] Second, Judge Newman considered the "primary" and "subsidiary" approach suggested by a sentence in Judge Oakes' opinion in *Kieselstein-Cord*.[63] The test was "to uphold the copyright whenever the decorative or aesthetically pleasing aspect of the article can be said to be 'primary' and the utilitarian function can be said to be 'subsidiary.'"[64] Judge Newman rejected this test because it offered "little guidance to the trier of fact, or the judge endeavoring to determine whether a triable issue of fact exists, as to what is being measured by the classifications 'primary' and 'subsidiary.'"[65] Finally, Judge Newman articulated a "market approach" announced earlier by Professor Melville B. Nimmer, where "conceptual separability exists where there is any substantial likelihood that even if the article had no utilitarian use it would still be marketable to some significant segment of the community simply because of its aesthetic qualities."[66] However, the risk in this approach was that it limited "a copyright only to designs of forms within the domain of popular art."[67] Judge Newman rejected this test because sculpted works may be works of art, even though few people might be willing to purchase them for display in their homes.[68]

After viewing the broad and uncertain conceptual separability landscape, Judge Newman announced his own standard known as the temporal displacement test.[69] Under this approach, the design features are conceptually separable from the utilitarian aspects of the useful article if "the article…stimulate[s] in the mind of the beholder a concept that is separate from the concept evoked by its utilitarian function."[70] "The test turns on what may reasonably be understood to be occurring in the mind of the beholder or, as some might say, in the 'mind's eye' of the beholder."[71] First, Judge Newman applied this standard to the two naked torsos, concluding that an "ordinary observer could reasonably conclude only that these two forms are not simply mannequins that happen to have sufficient aesthetic appeal to qualify as works of art."[72] Rather, "[t]he initial concept in the observer's mind… would be of an art object, an entirely understandable mental impression based on previous viewing of unclad torsos displayed as artistic sculptures."[73] In a persuasive comparison, Judge Newman stated that "the design of Michelangelo's 'David' would not cease to be copyrightable simply because cheap copies of it were used by a retail store to display clothing."[74] Thus, he believed that the two unclothed mannequins were worthy of copyright as a matter of law.[75] As for the two mannequins clothed with a shirt or a blouse, Judge Newman found it "likely that these forms too would engender the separately entertained concept of an art object whether or not they also engendered the concept of a mannequin."[76] Thus, Judge Newman disagreed with the majority. He believed that the court should have granted summary judgment in favor of the two nude mannequins and remanded for trial the issue of the two clothed mannequins.[77]

The uncertainty and confusion surrounding the separability analysis rendered copyright protection inadequate for clothing designers. Not only could courts not decide whether to apply a physical test or a conceptual test, there were at least six different ways to apply conceptual separability. Thus, before *Varsity*, there was no way of knowing which test the court would apply. Further, all of the tests seemed highly subjective and left the courts making "artistic value judgments."[78] Therefore, after the

Sixth Circuit held that stripes, chevrons, and zigzags of cheerleading outfits were conceptually separable from the utilitarian aspects of covering the body and allowing movement, the Supreme Court granted certiorari to clarify how to apply the separability analysis.[79] The new standard allows for an easier and more flexible analysis.

## Part C: *Varsity Brands* Clarifies and Articulates the Conceptual Separability Analysis

In *Varsity Brands* the Supreme Court eliminated the physical-conceptual distinction and set forth a clear standard for the separability analysis.[80] There, Varsity Brands designed, made, and sold cheerleading uniforms.[81] It held over 200 U.S. copyright registrations for two-dimensional designs appearing on the surface of its cheerleading uniforms.[82] The designs consisted of "combinations, positionings, and arrangements of elements" that included "chevrons…, lines, curves, stripes, angles, diagonals, inverted [chevrons], coloring, and shapes."[83] Star Athletica also marketed and sold cheerleading uniforms, some of which contained similar designs to Varsity's registered designs.[84] Varsity Brands sued Star Athletica for copyright infringement.[85]

The district court granted summary judgment in favor of Star Athletica on the ground that the "designs served the useful, or 'utilitarian,' function of identifying the garments as 'cheerleading uniforms' and therefore could not be 'physically or conceptually' separated."[86] The Sixth Circuit reversed the district court, holding that the "graphic design concepts [could] be identified separately from the utilitarian aspects of the cheerleading uniform," since the "design[s] and a blank cheerleading uniform c[ould] appear 'side by side'—one as a graphic design, and one as a cheerleading uniform."[87] Further, the Sixth Circuit reasoned that "the designs were 'capable of existing independently' because they could be incorporated onto the surface of different types of garments, or hung on the wall and framed as art."[88] The Supreme Court affirmed the Sixth Circuit, holding that designs on the cheerleading uniforms "(1) [could] be perceived as a two- or three-dimensional work of art separate from the useful article and (2) would qualify as a protectable pictorial, graphic, or sculptural work either on its own or in some other medium if imagined separately from the useful article."[89] This new two-prong approach eliminated the physical-conceptual distinction and clarified the separability standard.

In eliminating the physical-conceptual distinction, the Supreme Court determined that "[t]he statute does not require that we imagine a nonartistic replacement for the removed feature to determine whether that feature is capable of an independent existence."[90] Rather, the Court held that "[t]he focus of the separability inquiry is on the extracted feature and not on any aspects of the useful article that remain after the imaginary extraction."[91] Therefore, the "decisionmaker" does not have to "imagine a fully functioning useful article without the artistic feature," but only has to determine that "the separated feature qualif[ies] as a nonuseful pictorial, graphic, or sculptural work on its own."[92]

> *"First, the Court held that 'one can identify the decorations as features having pictorial, graphic, or sculptural qualities.'"*

The Court rejected the physical separability test because it contradicted Congress's use of the term "applied art."[93] The Court reasoned that § 101 expressly protects "applied art," and applied art can be defined as "art 'employed in the decoration, design, or execution of useful objects,'[94] or 'those arts or crafts that have a *primarily utilitarian function*, or…the designs and decorations used in these arts.'"[95] Lower courts and commentators have held that "a feature is physically separable from the underlying useful article if it can 'be physically separated from the article by ordinary means while leaving the utilitarian aspects of the article *completely intact*.'"[96] Since an application of this physical separability standard where the article must remain "completely intact" directly contradicts the definition of "applied art," the Court held that "[t]he statutory text indicates that separability is a conceptual undertaking."[97] Thus, "[a]n artistic feature that would be eligible for copyright protection on its own cannot lose that protection simply because it was first created as a feature of the design of a useful article, even if it makes that article more useful."[98] Not only did the Supreme Court helped clarify the separability analysis by eliminating the "physical-conceptual distinction," it also took it a step further and set forth a clear standard for conceptual separability. The new test states that:

> [A] feature incorporated into the design of a useful article is eligible for copyright protection only if the feature (1) can be perceived as a two- or three-dimensional work of art separate from the useful article and (2) would qualify as a protectable pictorial, graphic, or sculptural work—either on its own or fixed in some other tangible medium of expression—if it were imagined separately from the useful article into which it is incorporated.[99]

Applying this "straightforward" test to the cheerleading uniforms in *Varsity Brands*, the Supreme Court held that the decorations or fashion designs were separable from the uniforms, and therefore eligible for copyright protection. First, the Court held that "one can identify the decorations as features having pictorial, graphic, or sculptural qualities."[100] Second, the Court held that "if the arrangement of colors, shapes, stripes, and chevrons on the surface of the cheerleading uniforms were separated from the uniform and applied in another medium—for example, on a painter's canvas—they would qualify as 'two-dimensional…works of…art.'"[101] Finally, "imaginatively removing the surface decorations from the uniforms and applying them in another medium would not replicate the uniform itself."[102] For example, if the designs were applied to other articles of clothing, they would not replicate the cheerleading uniform.[103] Thus, the designs on the cheerleading uniform survived the simplified conceptual separability test.[104]

## Conclusion

Fashion design plays a major role in the United States economy, yet no legislation explicitly protects fashion designers.[105] Without specific legislation, major gaps in intellectual property laws have left fashion designers largely without adequate protection for their creations.[106] These gaps revolve around the concept of balancing the access of utilitarian objects to the public and incentivizing creation by protecting an artist's work.[107] Unfortunately, this balance tipped heavily in favor of the public in regard to the fashion industry.

The recent Supreme Court decision *Varsity Brands* helps tip the scales back toward an equilibrium under copyright law.[108] It is a light at the end of the tunnel, or runway. The Supreme Court held that the separability analysis is a conceptual undertaking, eliminating the need for courts to decide whether to apply the confusing physical and conceptual separability test.[109] Further, it set forth a single, "straightforward" standard for the conceptual separability analysis.[110] This clarification and simplification gives copyright protection a much needed push back in favor of fashion designers.[111] With the new standard set in place, the needle is in the hands of the lower courts to correctly thread a strong separability doctrine in favor of fashion design protection.

## Endnotes

1. *See* Mark A. Lemley, Intellectual Property in the New Technological Age: 2016, Volume I: Perspectives, Trade Secrets and Patents (2016) (hereinafter IP in the New Age Volume I).
2. *See id.*
3. *See id.*
4. *See id.*
5. *See* Paige Holton, *Intellectual Property Laws for Fashion Designers Need No Embellishments: They Are Already in Style*, 39 J. Corp. L. 415, 418 (2014).
6. *See id.*
7. *See id.*
8. 17 U.S.C. § 101.
9. *See* Express, LLC v. Fetish Grp., Inc., 424 F. Supp. 2d 1211, 1224 (C.D. Cal. 2006).
10. 17 U.S.C. § 101.
11. Mark A. Lemley, Intellectual Property in the New Technological Age: 2016, Volume II: Copyrights, Trademarks, and State IP Protections (2016), at IV-83 (hereinafter IP in the New Age Volume II).
12. *See* Pivot Point Int'l, Inc. v. Charlene Prod., Inc., 372 F.3d 913, N. 8 (7th Cir. 2004).
13. IP in the New Age Volume II, at IV-85.
14. Statistics & Facts on the U.S. Apparel Industry, *available at* https://www.statista.com/topics/965/apparel-market-in-the-us/.
15. Laura Fanelli, *A Fashion Forward Approach to Design Protection*, 85 St. John's L. Rev. 285 (2011).
16. *Id.*
17. *See* Star Athletica, L.L.C. v. Varsity Brands, Inc., 137 S. Ct. 1002 (2017).
18. *See id.*
19. 17 U.S.C. § 101.
20. *Id.*
21. 17 U.S.C. § 101.
22. *Id.*
23. *Express, LLC*, 424 F. Supp. 2d at 1224.
24. *See id.*
25. *Id.*
26. Anne Theodore Briggs, *Hung Out to Dry: Clothing Design Protection Pitfalls in United States Law*, 24 Hastings Comm. & Ent L.J. 169, 181 (2002).
27. *Id.* at 181-82 (2002).
28. *See id.*
29. 35 U.S.C. § 101 (emphasis added).
30. 35 U.C.S. § 154.
31. 17 U.S.C. § 302.
32. Anne Theodore Briggs, *Hung Out to Dry: Clothing Design Protection Pitfalls in United States Law*, 24 Hastings Comm. & Ent L.J. 169, 182 (2002)
33. *See id.*; *see also* Express LLC v. Forever 21 Inc., No. CV 09-54140DW (VBKx), 2010 WL 3489308 (C.D. Cal. 2010) (holding that Express failed to show that any of the plaid designs had original creativity to establish copyright protection).
34. Brandir Int'l, Inc. v. Cascade Pac. Lumber Co., 834 F.2d 1142, 1143 (2d Cir. 1987) (held that no aesthetic qualities of the design of a bike rack were conceptually separable from the functional aspects of the design).
35. *Id.*
36. *Id.*
37. *Id.*
38. *Id.* (emphasis added).
39. Briggs, *supra* note 32, at 169,183.
40. Paige Holton, *Intellectual Property Laws for Fashion Designers Need No Embellishments: They Are Already in Style*, 39 J. Corp. L. 415, 420 (2014).
41. Brandir Int'l, Inc. v. Cascade Pac. Lumber Co., 834 F.2d 1142, 1144 (2d Cir. 1987).
42. Holton, *supra* note 40, at 415, 420.
43. Star Athletica, L.L.C. v. Varsity Brands, Inc., 137 S. Ct. 1002, 1014 (2017) (The statutory text indicates that separability is a conceptual undertaking. Because separability does not require the underlying useful article to remain, the physical-conceptual distinction is unnecessary.").
44. IP in the New Age, Volume II, at IV-83.

45. Pivot Point Int'l, Inc. v. Charlene Prod., Inc., 372 F.3d 913, N. 8 (7th Cir. 2004).
46. Esquire, Inc. v. Ringer, 591 F.2d 796, 798.
47. Varsity Brands, Inc. v. Star Athletica, LLC, 799 F.3d 468, 483 (6th Cir. 2015), *cert. granted in part sub nom*. Star Athletica, L.L.C. v. Varsity Brands, Inc., 136 S. Ct. 1823 (2016), and *aff'd sub nom.* Star Athletica, L.L.C. v. Varsity Brands, Inc., 137 S. Ct. 1002 (2017).
48. IP in the New Age, Volume II, at IV-83.
49. Carol Barnhart Inc. v. Econ. Cover Corp., 773 F.2d 411, 421 (2d Cir. 1985).
50. Brandir Int'l, Inc. v. Cascade Pac. Lumber Co., 834 F.2d 1142, 1144-46 (2d Cir. 1987).
51. *Id.* at 1144.
52. Carol Barnhart Inc. v. Econ. Cover Corp., 773 F.2d 411, 422 (2d Cir. 1985).
53. *Id.* at 420.
54. *Id.*
55. *Id.*
56. *Id.* at 419.
57. *Id.* at 426.
58. *Id.*
59. *Id.* (quoting 17 U.S.C. § 101.
60. *Carol Barnhart Inc.*, 773 F.2d at 421.
61. *Id.*
62. *Id.*
63. *Id.* (citing Kieselstein-Cord v. Accessories by Pearl, Inc., 632 F.2d 989 (2d Cir.1980)).
64. *Carol Barnhart Inc.*, 773 F.2d at 421 (citing Kieselstein-Cord v. Accessories by Pearl, Inc., 632 F.2d 989, 993 (2d Cir. 1980)).
65. *Carol Barnhart Inc.*, 773 F.2d at 421.
66. *Id.* (citing Nimmer on Copyright § 12.11[B], at 12-79 to 12-80 (1985)).
67. *Carol Barnhart Inc.*, 773 F.2d at 422.
68. *Id.*
69. IP in the New Age Volume II at IV-83.
70. Carol Barnhart Inc. v. Econ. Cover Corp., 773 F.2d 411, 422 (2d Cir. 1985).
71. *Id.*
72. *Id.* at 424.
73. *Id.*
74. *Id.*
75. *Id.*
76. *Id.*
77. *Id.*
78. IP in the New Age Volume II at IV-83.
79. Star Athletica, L.L.C. v. Varsity Brands, Inc., 137 S. Ct. 1002, 1007 (2017).
80. *Id.*
81. *Id.*
82. *Id.*
83. *Id.*
84. *Id.*
85. *Id.*
86. *Id.* at 1007-08.
87. Varsity Brands, Inc. v. Star Athletica, LLC, 799 F.3d 468, 491 (6th Cir. 2015), *cert. granted in part sub nom*. Star Athletica, L.L.C. v. Varsity Brands, Inc., 136 S. Ct. 1823, 194 L. Ed. 2d 829 (2016), and aff'd sub nom. Star Athletica, L.L.C. v. Varsity Brands, Inc., 137 S. Ct. 1002, 197 L. Ed. 2d 354 (2017).
88. Star Athletica, L.L.C. v. Varsity Brands, Inc., 137 S. Ct. 1002, 1008 (2017).
89. *Id.* at 1016.
90. *Id.* at 1014.
91. *Id.*
92. *Id.*
93. *Id.*
94. *Id.* at 1014 (quoting Webster's Third New International Dictionary 105 (1976)).
95. *Star Athletica, L.L.C.*, 137 S. Ct. at 1014 (quoting Random House Dictionary 73 (1966)).
96. *Star Athletica, L.L.C.*, 137 S. Ct. at 1014 (quoting Compendium § 924.2(A)) (emphasis added).
97. *Star Athletica, L.L.C.*, 137 S. Ct. at 1014.
98. *Id.*
99. *Id.* at 1007.
100. *Id.* at 1012.
101. *Id.* (quoting 17 U.S.C. § 101).
102. *Star Athletica, L.L.C.*, 137 S. Ct. at 1012.
103. *Id.*
104. *Id.*
105. Laura Fanelli, *A Fashion Forward Approach to Design Protection*, 85 St. John's L. Rev. 285 (2011).
106. *See id.*
107. *See* Star Athletica, L.L.C. v. Varsity Brands, Inc., 137 S. Ct. 1002, 1007 (2017).
108. *Id.*
109. *Id.*
110. *Id.*
111. *Id.*

**Sean McGrath is a third-year student at St. John's University School of Law, where he serves on the Executive Board for the Entertainment, Arts, and Sports Law Society and is a Senior Staff Member of the *St. John's Law Review*. After graduation, Sean will be working at Latham & Watkins, LLP, where he hopes to stay involved in the entertainment industry. Sean would like to thank Professor Eva Subotnik and Professor Joseph Salvo for their guidance in intellectual property and entertainment law.**

Krell's Korner

*Krell's Korner is a column about the people, events, and deals that shape the entertainment, arts, and sports industries.*

# Space, Sitcoms, and the 1960s

By David Krell

Space is, as a famous 23rd century starship captain noted, the final fronttier. Mankind's journey into space began with the Wright Brothers at Kitty Hawk, North Carolina on December 17, 1903, demonstrating that a powered airplane could defy gravity. Orville Wright made the inaugural flight, which lasted about 12 seconds; the plane flew for 120 feet. Alternating pilot duties, the brothers' four flights that day ended with Wilbur flying the plane for 852 feet and keeping it in the air for 59 seconds.

In 1915, the National Advisory Committee for Aeronautics (NACA) was created to foster, organize, and promote aeronautics engineering. Its emergence during World War I gave a military angle to projects. NACA dissolved; the National Aeronautics and Space Administration (NASA) emerged. NASA formed in 1958 to confront the wake of Russia launching Sputnik, the first man-made object into space.

In the background of President Dwight Eisenhower signing the bill to create NASA stood Lyndon Baines Johnson, the Senate Majority Leader. A Democratic icon, Sen. Johnson advised the Republican president on the benefits of space, military and otherwise. Comparing space to ancient avenues for empires—roads for Roman, seas for British—Sen. Johnson made the case that the Cold War created the need for America to prioritize space.[1]

> *"The events of Apollo 13 became a movie of the same name in 1995, directed by Ron Howard and starring Tom Hanks as Lovell."*

NASA's Project Mercury replaced the pre-NASA Air Force program "Man in Space Soonest" and consisted of seven astronauts selected to make solo flights—Alan Shepard, Gus Grissom, John Glenn, Scott Carpenter, Deke Slayton, Wally Schirra, and Gordon Cooper. NASA grounded Slayton because of a heart murmur; he then headed NASA's Astronaut Office, becoming a crucial part of astronaut selection for NASA, flight plans, and crews. In 1975, he was cleared to be a part of the Apollo-Soyuz project.

In 1961, Shepard made America's first manned space flight; two years later, Cooper made the last solo flight. After Mercury, NASA launched two-man crews in Project Gemini, followed by three-man crews in Project Apollo.

**David Krell**

Apollo 8 was the first manned project to orbit the moon, Apollo 11 was the first manned moon landing, and Apollo 13 was the operation that defined NASA's ability to improvise a rescue plan for a crew stranded in space. When a liquid oxygen tank exploded, Astronauts Jim Lovell, Fred Haise, and Jack Swigert aborted their moon landing plan, used the moon's gravitational pull as a slingshot, and used the lunar module Aquarius as a lifeboat. The events of Apollo 13 became a movie of the same name in 1995, directed by Ron Howard and starring Tom Hanks as Lovell.

Project Apollo ended after Apollo 17 in 1972, giving way to an idea authorized by President Richard Nixon to have the Space Shuttle, a craft shaped like an airplane attached to a rocket and then detached to orbit Earth and return. Its first flight occurred in 1981. NASA scrapped shuttle operations 30 years later.

NASA's omnipresence in headlines, newscasts, and conversations around the dinner table in the 1960s extended to situation comedy. *I Dream of Jeannie* (*Jeannie*) aired on NBC from 1965 to 1970. The pilot for *Jeannie* showed Captain Tony Nelson piloting Stardust One and plunging into the ocean after a final stage rocket misfire forced him to land his capsule in the South Pacific. Washed ashore, Tony made an SOS signal in the sand, using logs. It was there where he discovered a bottle that, when uncorked, allowed a beautiful, blonde, buxom genie to appear. Larry Hagman and Barbara Eden played Captain (later Major) Nelson and Jeannie, respectively.[2]

Comedy revolved around Jeannie always trying to help her "master," usually worsening the situation, while he strove to keep her true identity hidden from Dr. Alfred Bellows, NASA's psychiatrist. Later in the series, Tony and Jeannie married.

*My Favorite Martian* aired on CBS from 1963 to 1966. Starring Bill Bixby as *Los Angeles Sun* reporter Tim O'Hara, *My Favorite Martian* contained a similar premise to *Jeannie*. A Martian, played by Ray Walston, was traveling in a flying saucer at 9,000 miles an hour when he crashed after missing the X-15 rocket flying at "barely

4,000 miles an hour." After getting rushed out of Edwards Air Force base, where he went to cover the launch for "The West's Most Influential Newspaper," Tim discovered the spaceship and Martian, who proclaimed himself to be a professor of anthropology and the "greatest living authority" on earthlings, thanks to visits in the previous 150 years. To disguise the Martian's true identity, Tim dubbed him "Uncle Martin."[3]

Airing on CBS from 1964 to 1967, *Gilligan's Island* also used a space theme for three episodes. "Splashdown" showed the castaways trying to get the attention of two astronauts in orbit—Tobias and Ryan—presumably for Project Gemini. Los Angeles sports announcer Chick Hearn introduced the premise:

> It was a perfect launch and Scorpio 6 with astronauts Tobias and Ryan aboard is on its way to make space history. This is the most complex and certainly the most ambitious mission ever to be attempted by man in outer space. Tobias and Ryan will maneuver their spaceship to a rendezvous with the unmanned Scorpio E-X-1 capsule sent into orbit three weeks ago. The orbit of Scorpio E-X-1 was changed one hour ago by Ground Control, changed to match the apogee and the perigree of Scorpio 6.

Consequently, Tobias would transition to the E-X-1 capsule and the astronauts would return to Earth separately.[4]

When the Professor calculated that Tobias and Ryan will be able to see the island during certain orbits, the castaways spelled out SOS with tree trunks and lit them on fire. Gilligan accidentally kicked a log when his pants were on fire, so the message instead read "SOL," which the astronauts believed was meant as a personal missive for one of them—Sol Tobias. The E-X-1 landed in the lagoon, thereby aborting the mission. Yet the castaways were unable to use it for rescue because NASA's Mission Control blew it up by remote control to prevent classified instruments and data from being stolen.

Further *Gilligan's Island* episodes included "Nyet, Nyet, Not Yet," where two Russian cosmonauts crashed their capsule in the island's lagoon.[5] In "Smile, You're on Mars Camera," the castaways found a video probe meant to land on Mars.[6]

*The Lucy Show*, starring Lucille Ball, used a space theme as the backdrop for the 1962 episode "Lucy Becomes an Astronaut."[7]

*The Beverly Hillbillies* often inserted 1960s popular culture into its episodes. In "The Folk Singers," Jethro initially wanted to become an astronaut, but changed his mind to become the next big thing in the folk music genre.[8]

President Eisenhower's decision to formalize space exploration under NASA inspired conversation at the company water cooler, family dinner table, and schools, regarding the battle with the Russians to achieve prominence in space. Perhaps the best illustration of the space program's omnipresence in American culture was the *My Three Sons* episode "Countdown," detailing a satellite launch as the three Douglas boys and their patriarch, Steve, raced around the house to get ready for school and work, respectively. In the background, a broadcast of the launch was interspersed with the actions of the Douglas household. Steve realized that his father-in-law, Bub, set the kitchen clock ahead an hour instead of back when Daylight Savings Time ended the night before. As Steve set his alarm clock according to the kitchen clock, the sleepy Douglas clan was two hours ahead of standard time. When they returned to the living room, viewers learned that the broadcast was not a satellite launch, but rather a film of a failed one airing before the actual launch.[9]

It was inevitable that Hollywood would mine the space craze for comedy. Somewhere, Copernicus is laughing.

## Endnotes

1. Tom Wolfe, *The Right Stuff*, 54-55 (1979).
2. *I Dream of Jeannie* (NBC television broadcast Sep. 18, 1965).
3. *My Favorite Martian: My Favorite Martin* (CBS television broadcast Sep. 29, 1963).
4. *Gilligan's Island*: *Splashdown* (CBS television broadcast Feb. 20, 1967).
5. *Gilligan's Island: Nyet, Nyet, Not Yet* (CBS television broadcast Nov. 18, 1965).
6. *Gilligan's Island: Smile, You're on Mars Camera* (CBS television broadcast Oct. 7, 1965).
7. *The Lucy Show: Lucy Becomes an Astronaut* (CBS television broadcast Nov. 5, 1962).
8. *The Beverly Hillbillies: The Folk Singers* (CBS television broadcast Mar. 23, 1966).
9. *My Three Sons: Countdown* (ABC television broadcast Oct. 20, 1960).

**David Krell is the author of the forthcoming book *1962: Baseball, Hollywood, JFK, and the Beginning of America's Future*, which is scheduled to be published by University of Nebraska Press in 2019. David is also the co-editor of the NYSBA book *In the Arena*. He is an active member of the bar in New York, and an inactive member in New Jersey and Pennsylvania.**

*The previous Krell's Korner article, "There Was Once a Ballpark—Mourning the Dodgers, Meeting the Mets, William Shea, and the Rise and Fall of the Continental League", published in the Fall/Winter 2017 issue was mistakenly credited as a contribution to the Society for American Baseball Research (SABR) Baseball Biography Project. It was not part of that project and was exclusively published by the* EASL Journal.

# The Entertainment, Arts and Sports Law Section Welcomes New Members *(December 2017 - February 2018)*

**First District:**
Michele J. Alexander
Eric Scott Askanase
Michael Travis Barkoff
Charles M. Barsamian
Emilia Bechrakis
Tess Bonoli
Tiffany Carter
Andre G. Castaybert
Le Cui
Bernd P. Delahaye
Karolina Ebel
Matthew Finizio
Ted Emery Fisher
Robert M. Flannery
Michael N. Fleischman
Laura Jeffords Greenberg
Roy Ahron Hakimian
Helene W. Hartig
Hilary Brynn Hebrank
Wendy B. Heilbut
Richard S. Hevier, Jr.
Andrew David Jacobs
Maryam Jahedi
Alan E. Katz
Matthew William Liebenson
Jennifer Lupo
Sandro O. Monteblanco
Ayisha Alvi Morgan
Taylor Moskowitz
Madeleine M. Nichols
Elisabetta Nicotra
Christopher Joseph Norton
Jonathan E. Rebell
Stephanie Leigh Rowan
Seth Etan Schlessel
Kenneth A. Schulman
Andreas Seuffert
Asha Saran Smith
Colleen A. Sorrell Welker
Leatha J. Sturges
Michael F. Taxin
La-Vaughnda Ankevia Taylor
John J. Tormey, III
Vivek Vashi
Joseph Antonio Volpe
Robert P. Walters

**First District (continued):**
Kaylin L. Whittingham
Derek Andrew Williams
Owen L. Wincig
Ethan Joseph Zausner
Genan F. Zilkha

**Second District:**
David A. Amar
Dyon D. Auguste
Jessica A. Breuer
William Hair, Jr.
Brittany Mary Mazur
Paul G. Mederos
David Park
Collette Angela Parris
Anna Maria Radke

**Third District:**
J. Michael Boxley
Anne M. Nardacci
Nadia Nowak
Luca S. Ognibene
David E. Rook
Jeremy Eliezer Sanders
Jennifer Sherman

**Fourth District:**
Robert W. Hemsworth
Alexis Osborne
Stacey B. Rowland

**Fifth District:**
Jesse Jeffers
Dejaih L. Johnson
Aaron J. Maher
Kevin M. Moore
Mujtaba Tirmizey

**Sixth District:**
Carissa M. Weidman

**Seventh District:**
Jeffrey C. Fasoldt
Maddie N. Loewenguth

**Eighth District:**
David P. Lazenski
Carole McNall

**Ninth District:**
Caroline Barry
Gerard Bilotto
Daniel S. Chilewich
John J. Kolesar, III
Gregory Paul Nero
John J. Pacor
Judah S. Shapiro
Steven Stieglitz

**Tenth District:**
M. David Baker
David M. Farbman
Andrew Mcconnell Gross
Nicole Samantha Indelicato
John D. Logigian
Moise Andre Uge
Andrew Weekes

**Eleventh District:**
Yeyoon Cho
Tiffany Athena Ghicas
Sharly Kalyna Larios
Andrew S. Lipton
Liss Mendez
Rosa Moore
Monica C. Moran
Darlene Mottley
Leslie C. Myers
Griffin Sloan
Carl Andre Vulcain
lton Ronald Waldon, Jr.

**Twelfth District:**
John Osei Bonsu
William Chen
Kenneth M. Leibowitz

**Thirteenth District:**
Joseph Palumbo

**Out of Country:**
Peter A. Ackerman
Lorenzo Enrico Agnoloni
Alejandro Jose Alvarez Loscher
Rebecca Sara Ashkenazi
Francois F. Berbinau
Blake Timothy Bilstad
Theodore K. Cheng
Michael T. Cummings
Christopher R. Dandridge
David H. Flanzer
Patrick Foley
Joshua G. Gamboa
Edward R. Grossi
Brian D. Gunderson
Danielle M. Harrison
Eleanor Cornealia Hopkins
Eunmi Hwang
Ms. Jo A. Irby
Lansburg Jean-Pierre
Ariel Kirshenbaum
Kei Kitatani
Kim Uralovich Latypov
Terri F. Leftwich
Chia-cheng Liao
Michael Makarov
Beverly McQueary Smith
Julee Lynn Milham
Fabiola N. Moya Castillo
Marguerite Alice Nuse
Justin Oh
Kimberly Roman
Ruggero Rubino Sammartano
Tory A. Sansom
Kirk Theodore Schroder
Andrew Lance Schwartz
David L. Sfara
Tyler A. Sims
Kristian E. Stefanides
Bezalel Adin Stern
Wilfried Etienne Tchangoue
Abigail Viernes
John Nicholas Visconi, II
Francine D. Ward
Anna Aurora Wennakoski
Yunzhi Zhao

# Section Committees and Chairpersons

**The Entertainment, Arts and Sports Law Section encourages members to participate in its programs and to contact the Section Officers or the Committee Chairs or Co-Chairs for further information.**

**Alternative Dispute Resolution**
Peter V. Arcese
11 Broadway
Suite 615
New York, NY 10004
peter@pvacounsel.com

Judith B. Prowda
Sotheby's Institute of Art
570 Lexington Avenue
New York, NY 10022
judith.prowda@gmail.com

**Copyright and Trademark**
Donna E. Frosco
Dunnington Bartholow & Miller LLP
250 Park Avenue
New York, NY 10177
dfrosco@dunnington.com

Teresa Lee
Pryor Cashman LLP
7 Times Square
New York, NY 10036-6569
tlee@pryorcashman.com

**Digital Media**
Sarah Margaret Robertson
Dorsey & Whitney LLP
51 West 52nd Street
New York, NY 10019
robertson.sarah@dorsey.com

Andrew Howard Seiden
Curtis, Mallet-Prevost, Colt
& Mosle LLP
101 Park Avenue, Suite 3500
New York, NY 10178-0061
aseiden@curtis.com

Szyuan Shannon Zhu, Esq.
Bank of China
1045 Avenue of the Americas
New York, NY 10018
szhu@bocusa.com

**Diversity**
Anne S. Atkinson
Pryor Cashman LLP
7 Times Square
New York, NY 10036-6569
aatkinson@pryorcashman.com

**Diversity (continued)**
Cheryl L. Davis
Menaker & Herrmann LLP
10 East 40th Street
43rd Floor
New York, NY 10016
cdavis@mhjur.com

**Fashion Law**
Kristin Gabrielle Garris
Tannenbaum Helpern Syracuse
Hirschtritt LLP
900 Third Avenue
12th Floor
New York, NY 10022
garris@thsh.com

Erika Maurice
Condon & Forsyth LLP
18th Floor
7 Times Square
New York, NY 10036-6554
emaurice@condonlaw.com

Lisa Marie Willis
Kilpatrick Townsend & Stockton LLP
1114 Avenue of the Americas
New York, NY 10036
lisamwillis@gmail.com

**Fine Arts**
Mary Elisabeth Conroy
Edward W. Hayes P.C.
515 Madison Ave.
31st Floor
New York, NY 10022-5418
melisabeth.conroy@gmail.com

Judith B. Prowda
Sotheby's Institute of Art
570 Lexington Avenue
New York, NY 10022
judith.prowda@gmail.com

Carol J. Steinberg
Law Firm of Carol J. Steinberg
74 E. 7th St.
Suite F3
New York, NY 10003
elizabethcjs@gmail.com

**International**
Irina Tarsis
Center for Art Law
195 Plymouth Street, 616
Brooklyn, NY 11201
tarsis@itsartlaw.com

**Law Student Liaisons**
Jason Aylesworth
Sendroff & Baruch, LLP
1500 Broadway, Suite 2201
New York, NY 10036
jaylesworth@sendroffbaruch.com

**Legislation**
Marc Jacobson
Marc Jacobson, PC
440 East 79th Street, 11th Floor
New York, NY 10075
marc@marcjacobson.com

Steven H. Richman
Board of Elections, City of New York
32 Broadway, 7th Floor
New York, NY 10004-1609
srichman@boe.nyc.ny.us

**Literary Works and Related Rights**
Judith B. Bass
Law Offices of Judith B. Bass
1325 Avenue of the Americas
27th Floor
New York, NY 10019
jbb@jbbasslaw.com

Joan S. Faier
1011 North Avenue
New Rochelle, NY 10804-3610
bookf@aol.com

**Litigation**
Brian D. Caplan
Reitler Kailas & Rosenblatt LLC
885 Third Avenue
New York, NY 10022
bcaplan@reitlerlaw.com

Paul V. LiCalsi
Robins Kaplan LLP
601 Lexington Avenue, 34th Floor
New York, NY 10022
pvlicalsi@rkmc.com

**Motion Pictures**
Ethan Y. Bordman
Ethan Y. Bordman, PLLC
244 Godwin Avenue
Ridgewood, NJ 07450
ethan@ethanbordman.com

Robert L. Seigel
The Law Office of Robert L. Seigel
575 Madison Avenue
10th Floor
New York, NY 10022
rlsentlaw@aol.com

**Music and Recording Industry**
Joyce Sydnee Dollinger
Dollinger, Gonski and Grossman
1 Old Country Road, Suite 102
Carle Place, NY 11514
jdollinger@dgglawoffices.com

Christine A. Pepe
Business & Legal Affairs
Tidal
New York, NY

**Not for Profit**
Robert J. Reicher
2 Charlton Street
New York, NY 10014
rjr@rjreicherlaw.com

**Pro Bono Steering**
Elissa D. Hecker
Law Office of Elissa D. Hecker
64 Butterwood Lane East
Irvington, NY 10533
eheckeresq@eheckeresq.com

Kathy Kim
101 Productions, Ltd.
260 West 44th Street
Suite 600
New York, NY 10036
KathyK@productions101.com

Carol J. Steinberg
Law Firm of Carol J. Steinberg
74 E. 7th Street
Suite F3
New York, NY 10003
elizabethcjs@gmail.com

Irina Tarsis
Center for Art Law
195 Plymouth Street, 616
Brooklyn, NY 11201
tarsis@itsartlaw.com

**Publications**
Elissa D. Hecker
Law Office of Elissa D. Hecker
64 Butterwood Lane East
Irvington, NY 10533
eheckeresq@eheckeresq.com

**Publicity, Privacy and Media**
Edward H. Rosenthal
Frankfurt Kurnit Klein & Selz, P.C.
488 Madison Avenue
10th Floor
New York, NY 10022-5702
erosenthal@fkks.com

Barry Werbin
Herrick Feinstein LLP
2 Park Avenue
New York, NY 10016-5603
bwerbin@herrick.com

**Phil Cowan/BMI Scholarship**
Judith A. Bresler
Withers Bergman LLP
430 Park Avenue
9th Floor
New York, NY 10022
JudithABresler@gmail.com

Richard A. Garza
Broadcast Music, Inc. (BMI)
250 Greenwich Street
7 World Trade Center
New York, NY 10019
rgarza@bmi.com

Barbara Jaffe
Supreme Court of the State of New York
60 Centre Street
New York, NY 10013-4306
bjaffe@nycourts.gov

**Sports**
David S. Fogel
NBA Coaches Association
545 Fifth Avenue
Suite 640
New York, NY 10017
dfogel@nmgsports.com

Karen M. Lent
Skadden, Arps, Slate, Meagher
& Flom LLP
4 Times Square
Room 34322
New York, NY 10036-6518
karen.lent@skadden.com

**Sports (continued)**
Kathleen J. Wu
Andrews Kurth LLP
1717 Main Street, Suite 3700
Dallas, TX 75201
kwu@akllp.com

**Television and Radio**
Pamela Cathlyn Jones
Law Offices of Pamela Jones
P.O. Box 222
Fairfield, CT 06824
pamelajonesesq@aol.com

Barry Skidelsky
185 East 85th Street
New York, NY 10028
bskidelsky@mindspring.com

Mary Ann Zimmer
Law Office of Mary Ann Zimmer
401 East 74th Street
New York, NY 10021
mazimmer74@aol.com

**Theatre and Performing Arts**
Jason P. Baruch
Sendroff & Baruch, LLP
1500 Broadway, Suite 2201
New York, NY 10036-4052
jbaruch@sendroffbaruch.com

Kathy Kim
101 Productions, Ltd.
260 West 44th Street, Suite 600
New York, NY 10036
KathyK@productions101.com

Diane F. Krausz
D. Krausz & Associates
Attorneys at Law
33 West 19th Street, 4th Floor
New York, NY 10011
DKrausz@dianekrausz.com

**Website**
Jennifer Meredith Liebman
NYS Division of Human Rights
1 Fordham Plaza
4th Floor
Bronx, NY 10458-5871
jennifermliebman@gmail.com

**Young Entertainment Lawyers**
Laura Alda Godorecci
40 Maplewood Avenue
Staten Island, NY 10306
lagodorecci@gmail.com

## Publication of Articles

The *Journal* welcomes the submission of articles of timely interest to members of the Section. Articles should be submitted with biographical information via e-mail in Microsoft Word format. Please submit articles to:

Elissa D. Hecker
Editor, *EASL Journal*
eheckeresq@eheckeresq.com



This *Journal* is published three times a year for members of the Entertainment, Arts and Sports Law Section of the New York State Bar Association. Members of the Section receive the *Journal* without charge. The views expressed in articles published in this *Journal* represent those of the authors only, and not necessarily the views of the Editor, the Entertainment, Arts and Sports Law Section or the New York State Bar Association.

We reserve the right to reject any advertisement. The New York State Bar Association is not responsible for typographical or other errors in advertisements.

**Accommodations for Persons with Disabilities:**
NYSBA welcomes participation by individuals with disabilities. NYSBA is committed to complying with all applicable laws that prohibit discrimination against individuals on the basis of disability in the full and equal enjoyment of its goods, services, programs, activities, facilities, privileges, advantages, or accommodations. To request auxiliary aids or services or if you have any questions regarding accessibility, please contact the Bar Center at (518) 463-3200.


ISSN 1090-8730 (print) ISSN 1933-8546 (online)

## Entertainment, Arts and Sports Law Journal

# 2018 Annual Meeting



NEW YORK STATE BAR ASSOCIATION
**ENTERTAINMENT, ARTS AND SPORTS LAW SECTION**
One Elk Street, Albany, New York 12207-1002



NEW YORK STATE BAR ASSOCIATION

# REQUEST FOR ARTICLES

If you have written an article you would like considered for publication, or have an idea for one, please contact the Editor-in-Chief:

**Elissa D. Hecker**
**Law Office of Elissa D. Hecker**
**64 Butterwood Lane East**
**Irvington, NY 10533**
**eheckeresq@eheckeresq.com**

*Articles should be submitted in electronic document format (pdfs are NOT acceptable), along with biographical information.*