

NYSBA

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# Entertainment, Arts and Sports Law Journal

20 YEARS  ENTERTAINMENT, ARTS AND SPORTS LAW

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

*20th  
Anniversary  
Issue*



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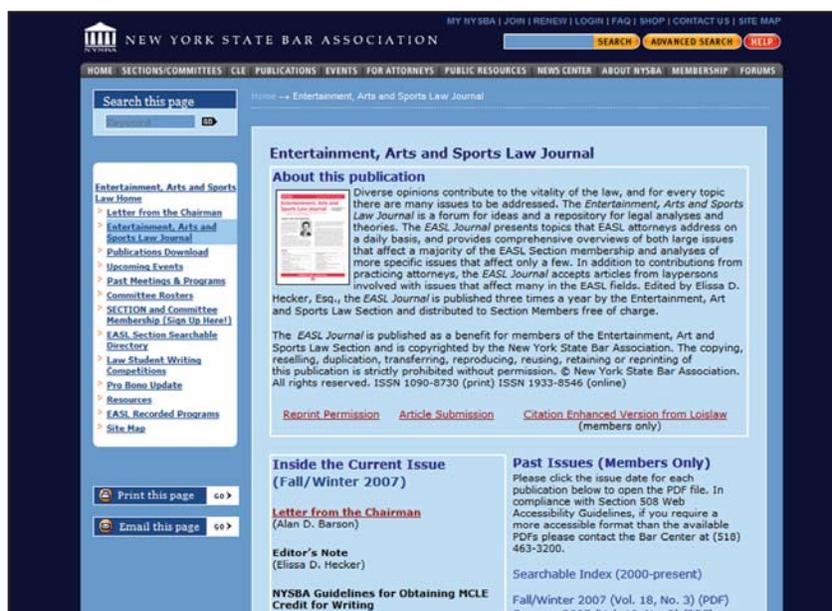
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# Letter from the Chairman

This year, 2008, marks the 20th Anniversary of the Entertainment, Arts and Sports Law Section. To commemorate this milestone, we proudly present this Special Edition of the *EASL Journal*.

This Special Edition, which has been in development for over a year, could not have happened without the dedication of Elissa Hecker, who chairs the Section's Publications Committee and has been the *Journal's* tireless editor for over five years. Thank you, Elissa, and we look forward to many more great issues of the *Journal* with you at the helm.

I have enjoyed every minute of my two years as Chairman. As I pass the leadership torch to Kenneth Swezey, who has been the Section's Vice-Chairman for the past two years, I would again like to thank the Officers and Executive Committee members of the Section, and all at the NYSBA, for their loyal support and encouragement in helping us position the EASL Section for many more years of success, growth and service to its members and the EASL Bar.

1988, the year the Section was born, was an interesting year. Let's take a quick look back at some events of that year in the world of entertainment, art and sports, with a little law thrown in for good measure.

## In 1988—

- Bobby McFerrin's "Don't Worry, Be Happy," Belinda Carlisle's "Heaven Is a Place on Earth" and Phil Collins' "Groovy Kind of Love" topped the charts around the world.
- With recordable CDs a decade away, the recorded music industry was lining up against the technological breakthrough known as the Digital Audio Tape ("DAT"), which was the digital equivalent of the compact cassette. Only one jazz label, GRP Records, released digitally recorded front-line product in the DAT format, but the format, though still widely used in the film industry, never caught on as a consumer product.
- The Writers Guild of America went on strike.
- J.R. Ewing pushed Nicholas Pierce over the railing of his high-rise office building—so enraging Sue Ellen that she fired three shots into him on the season finale of *Dallas*.
- "Sampling" cases were beginning to wend their way through the courts.



- The Los Angeles Dodgers won the World Series 4-1 over the Oakland Athletics. Orel Hershiser was the series MVP.
- Rick Rubin founded Def American Recordings.
- *Rain Man*, starring Dustin Hoffman and Tom Cruise, won the Academy Award for Best Picture. Clint Eastwood won the Golden Globe for Best Director for *Bird*.
- Madonna filed and then dropped assault charges against husband Sean Penn. They separated three days later and divorced the following year.
- A petition for *certiorari* from the Washington, D.C., Circuit Court was filed in *Community for Creative Non-Violence v. Reid* to allow the Supreme Court to resolve the growing conflict among the circuits over the determination of when a work is "made for hire."
- For the first time, CDs outsold vinyl records.
- Sonny Bono was inaugurated as the Mayor of Palm Springs and Alice Cooper announced his intention to run for Governor of Arizona.
- Mike Tyson knocked out Michael Spinks in Atlantic City and defended his title as Undisputed Heavyweight Championship of the World.
- Michael Jackson purchased a ranch in Santa Ynez, California, and named it "Neverland."
- The Washington Redskins won their second Super Bowl title 42-10 over the Denver Broncos in Super Bowl XXII.
- Electronic Arts released *John Madden Football* for the Apple II, and Namco released *Splatterhouse*—the first electronic game with a parental advisory disclaimer.
- Tom Hardy married Simone Ravelle on *General Hospital*—the first interracial wedding between two characters on American daytime television.
- Sony Corporation acquired CBS Records, Inc. for \$2 billion and later renamed it Sony Music Entertainment.
- Steffi Graf became the third woman in history to win the Grand Slam in tennis.
- The Berne Implementation Act of 1988 was passed and the Berne Convention was ratified by the Senate.

- The California Raisins version of “I Heard It Through the Grapevine” peaked at #84 on the Billboard Hot 100.
- *The American Experience* (PBS), *48 Hours* (CBS) and *America’s Most Wanted* (Fox) made their television debuts, and, like the EASL Section, continue to run today. An FBI Ten Most Wanted fugitive was captured within four days as a direct result of the *America’s Most Wanted* broadcast. *Truth or Consequences* was cancelled after a 38-year run.
- Andy Gibb of the Bee Gees died at age 30.
- Nine cast members of *LA Law* were nominated for Emmy Awards and Larry Drake (as developmentally challenged Benny Stulwitz) won.
- The first post-Berne major artists’ rights case, *Serra v. U.S. General Services Commission*, 874 F. Supp. 1045 (2d Cir. 1988), was decided.
- The top 10 grossing films were *Rain Man*, *Who Framed Roger Rabbit*, *Coming to America*, *Big*, *Twins*, *Crocodile Dundee II*, *Die Hard*, *The Naked Gun: From the Files of Police Squad!*, *Cocktail* and *Beetlejuice*.
- A teenage Celine Dion, then only known in the French-speaking world, won Eurovision with the song “Ne Partez Pas Sans Moi.”
- *Rural Telephone Service Co. v. Feist Publications, Inc.* was making its way through the lower courts. It was ultimately decided by the Supreme Court, 499 U.S. 340 (1991), which held that copyright rewards originality, not effort.
- 1,696 panels from an enormous national quilt commemorating those who died from AIDS were unfolded for the quilt’s first display in New York City. By the time it was displayed on the Mall in Washington D.C. for the second time in 1988, it had grown to some 8,000 panels. The quilt now encompasses over 44,000 panels, and if ever displayed in its entirety again would stretch all the way from the Capitol, past the Washington Monument, to the Lincoln Memorial. There is still no cure for AIDS.
- The Grammy for Record of the Year was awarded to Paul Simon for *Graceland* and for Album of the Year to Brian Eno, Daniel Lanois (producers) and U2 for *The Joshua Tree*. The Song of the Year was “Somewhere Out There,” performed by Linda Ronstadt and James Ingram and written by Barry Mann, Cynthia Weil and James Horner, and the Best New Artist was Jody Watley. The non-classical Producer of the Year Grammy was awarded to Narada Michael Walden.
- The National Film Preservation Act became law, becoming the first legislation to recognize the impact of colorization and similar “material alterations” of motion pictures.
- Barenaked Ladies, Baha Men, Cypress Hill, Deftones, Jesus Jones, Nine Inch Nails, The Smashing Pumpkins, and the Traveling Wilburys formed and Morrissey began his solo career. The Bangles, the Cars, the Communards, Reagan Youth, The Damned, Electric Light Orchestra, Heaven 17, the Housemartins, Hüsker Dü, Lords of the New Church and (sniff) Supertramp disbanded.
- George H. W. Bush and Dan Quayle won the Presidential election.
- The Record Rental Amendment of 1984 was extended for another eight years. The Act was originally passed in response to the proliferation of record rental stores whose primary function was to encourage customers to tape rented records instead of buying them.
- Mötley Crüe issued a statement saying the band’s stunts in its “Live Wire” music video should not be tried at home after a young fan was badly burned doing just that.
- The Satellite Home Viewers Act of 1988 was passed, adding § 119 to the Copyright Act and a compulsory license for satellite carriers to retransmit signals from broadcast network affiliates to rural viewers who could not receive network television signals.
- George Michael thanked Tipper Gore, head of the Parents Music Resource Center, for helping the sales of his *Faith* album.
- Several prominent New York entertainment lawyers convinced the New York State Bar Association of the need to formalize the Entertainment Law Committee as a Section, and the Entertainment, Arts and Sports Law Section was born.

Happy 20th Anniversary EASL!

Alan Barson  
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Grateful thanks to Bob Clarida, Robert Bernstein, David Goldberg, Judith Prowda, Judith Bresler and Wikipedia for providing additional source material for this article.

# Remarks from the Incoming Chair

As entertainment, art and sports law attorneys, we can proudly look back at 2007 and observe our partial immunity to the ancient curse “may you live in interesting times.” While there is no letup in the many challenges that face us in these “interesting times,” it is particularly exciting to watch our Section grow into a presence in both New York City and State, here at the epicenter of all of the areas that we represent. Being Vice-Chair of EASL has been an honor for me, as I was given the opportunity to actively participate in the growth of our Section and the development of both our online and live professional programs.



anniversary and our Section’s visibility grows, thanks to Membership Chair Rosemarie Tully, we are continuing to add new members and to reach out across the state to communicate about the benefits of EASL membership.

Of the many projects in the works, I am particularly proud of the progress made through the amazing hard work of Elissa Hecker and Elisabeth Wolfe, to add insurance coverage to our pro bono program (in conjunction with the IP Section) that will open up participation to numerous EASL members in this essential part of our mission. A growing pro bono program will enable many more artists, authors, students and not-for-profit cultural institutions to receive quality legal representation in clinics staffed by our own EASL volunteers. I sincerely hope that our broadening pro bono efforts serve as a model for the entire Association.

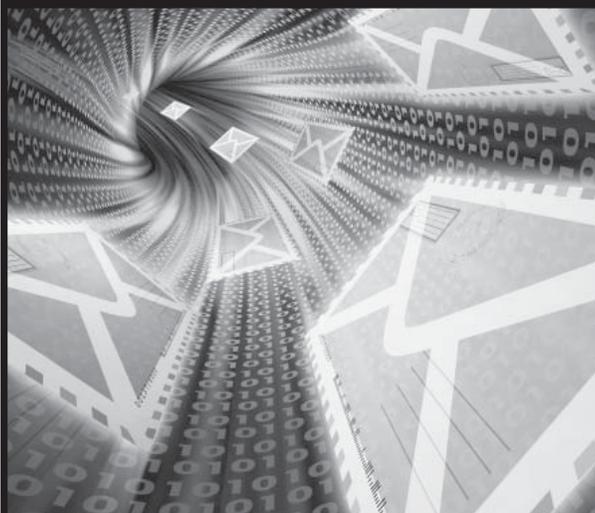
Rapid changes in technology as Web 2.0 and mobile content race into new directions that could barely be envisioned in the early 1990s, when I began my involvement with EASL. They lead us into brave new virtual worlds, whether we like it or not. In the last few years, we have seen a major shift in all areas of intellectual property law. EASL plays an important role in keeping us abreast of all these developments, and its members have played an important role in a number of the cases that have changed our legal landscape.

In addition to new initiatives with our pro bono program, as we look forward to 2008 and the continuing growth and depth of our Section membership, my goals include having our Section build on its co-sponsored CMJ program by adding more co-sponsored CLE activities in conjunction with leading New York cultural events throughout the year and working closely with the Governmental Relations team at the State Bar to add our voice in the legislative process in Albany when bills in our Section’s areas of expertise come before the Legislature.

Thanks to the leadership of our Chairman, Alan Barson, 2007 has been a pivotal year. As we reach our 20th

**Ken Swezey**

## Request for Articles



If you have written an article you would like considered for publication, or have an idea for one, please contact *EASL Journal* Editor:

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*Articles should be submitted in electronic document format (pdfs are NOT acceptable), along with biographical information.*

[www.nysba.org/EASLJournal](http://www.nysba.org/EASLJournal)

# Editor's Note/Remarks from the Immediate Past Chair

2008 marks the 20th Anniversary of the Entertainment, Arts and Sports Law Section of the New York State Bar Association. Thanks to the efforts of its founding members, subsequent Section and Committee Chairs and Officers and the EASL membership, the Section has grown exponentially from its original 20 members to almost 1,700 prominent attorneys today.



Among other things, the EASL Section is leading the NYSBA in its innovative pro bono initiatives and providing interesting, timely and affordable CLE programs. In addition to its programming and events, the EASL Section also provides its members with the *EASL Journal*, which is distributed both domestically and overseas.

It is astonishing to me that I have been involved with the EASL Section since 2000, when I answered an advertisement circulated among Section members, from then-Chair Judith Bresler, who was searching for an Editor for the *Journal*. It has been a whirlwind since then, and I have worked hard as your Editor and Chair of the Publications Committee, Vice-Chair of the Section, creator of the Pro Bono Committee and then Chair of the Section. I am pleased to continue to serve in my current capacities as Editor and Chair of the Publications Committee and Chair of the Pro Bono Committee, and am enjoying every moment.

The EASL Section is never static. Its membership grows and changes, and with that so does its ability to challenge, present to and stimulate our practice areas' greatest legal minds. As you will read in the following pages, the committee chairs work hard to put together the best possible programs with the greatest returns. Many of the chairs have compiled blurbs detailing specific programs that were held in 2007, which serve as examples of the events that are available to you.

Among EASL's many membership benefits, you may also procure copies of the *Litigation Handbook* (a project

originated by Peter Herbert, former Chair of the Litigation Committee), written in a user-friendly manner by expert attorneys. The book was published by the NYSBA in 2007. We are also working on a *Media Law Handbook*, which is due to be published in late 2008.

This issue of the *Journal* features articles that are both timely and historic, illustrating issues facing EASL practitioners and revisiting cases and legislation over the past 20 years. I am also pleased to include testimonials from those who were influential in the creation and operation of the EASL Section throughout its 20-year history, including the Founding Chair, Marc Jacobson. In addition, we received several congratulatory letters from leading members of the New York bar, who have recognized EASL's importance and influence over the years.

What I remember most as I look back on almost a decade with this Section (and what I value above all) is the quality of people who volunteer to make EASL great. It has been an honor and privilege to work with all of the Executive Committee members over the past years, and to meet and work with countless EASL colleagues.

Happy 20th Anniversary to you, the EASL Section, and here's to many more!

Elissa D. Hecker

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

## Article Update:

The article "Whose Stats Are They Anyway? Analyzing the Battle Between Major League Baseball and Fantasy Game Sites," by Stacy B. Evans that appeared in the Fall/Winter 2007 issue will be published in volume 9.2 of the *Texas Review of Entertainment and Sports Law*.

# EASL's Story

By Marc Jacobson, Founding Chair

The Entertainment, Arts and Sports Law Section grew and became the terrific resource that it is today because so many people thought that this was a good idea and volunteered to help.

When I opened my own firm at age 28, I was excited and enthusiastic about building an entertainment practice. Unable to join the Committee on Entertainment Law at the New York City Bar Association, I looked at the New York State Bar Association resources and saw that there was no organized group focused on Entertainment Law at the state level. I wrote to the NYSBA president, who asked me to present my proposal for a special committee at the Bar Association's Annual Meeting. My proposal was approved, and the Special Committee on Entertainment Law was born in 1984 at The Harvard Club, in New York City, where we held a dinner meeting with approximately 20 members. We met regularly thereafter, but within a few years it became obvious that a special committee was too small to handle the growing number of attorneys who wanted to participate. We were faced with exactly the same dilemma that the City Bar had, and which had caused me to start the committee for the State Bar. I was determined to create opportunities to learn and work in this area of law for everyone who wanted to, with little or no restriction on membership.

After consultation with the Association staff in Albany, we applied for and were granted Section status. With that, we expanded the scope of the group to include art and sports law, creating the Entertainment, Arts and Sports Law Section. In structuring our group, we researched similar Sections in California, Florida, Tennessee and Georgia. We created committees on Copyright Law, Music, Film, Theatre, Television, Merchandising and Advertising, among others. EASL's first weekend retreat was held and Section programs were presented each year, focusing on such topics as entertainment law for the general practitioner, film, music, television and the theater. The plan for a number of years was to provide a general overview every other year, with specialized courses in the alternate years.

Upon becoming a Section, membership grew within one year to more than 1,000, with a heavy concentration

of law students. To this day, our Section has many law student members, something about which we are all very proud. Thanks to the efforts of our founding members, the subsequent Section and Committee Chairs and Officers, and the EASL membership, the Section has continued to grow, and for the past several years has leveled off at around 1,700 members—a far cry from the 20 who attended our first dinner meeting.

The *EASL Journal* was established in about 1987 and is sent out three times a year to both domestic and international subscribers, as well as to prominent law school libraries. As we hoped when we started the *Journal*, the articles we publish continue to be both scholarly and informal.

Eventually, my friend Eric Roper assumed the mantle of Section leadership. Eric worked tirelessly on drafting our original by-laws and was instrumental in creating a very vibrant Section. Although he denies it to this day, I vividly remember another very funny long-time leader of the Section offering me a crisp \$100 bill, in front of everyone, seeking to change my mind to allow him to become the next Section Chairman. Alas, my price was much higher than that, so Eric got the post.

Some years later, at a Section luncheon during the Annual Bar Association Meeting, I was presented by my colleagues with a very special gift—what I originally called a clock, but was informed was not simply a clock, but a “chronometer” from Tiffany's. I use it to this day. The inscription is most meaningful to me. It reads:

Presented to Marc Jacobson, Founder and First Chairman of the New York State Bar Association Entertainment, Arts and Sports Law Section. A Visionary, Thoughtful Leader. January 19, 1990.

Looking back on the occasion of our Section's 20th anniversary, I am happy to say that this Section has become exactly what I hoped for. But it wasn't because of me. I just had a good idea. There are dozens of people across the state who helped execute that idea, and make it work. To them, we should all be grateful.



# New York State Bar Association

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January, 2008

Dear Entertainment, Arts and Sports Law Section Members:

Over the past 20 years, the Entertainment, Arts and Sports Law Section has grown from a 20-member special committee to a thriving almost 2000 member Section. EASL is a powerhouse Section, finding its strength not only in its size, but also in its breadth of expertise, making it the “go-to” authority on issues and policies of import to the entertainment, arts and sports industries.

I could take this opportunity to rave about EASL’s successes in cutting-edge CLE programming or EASL’s informative and authoritative publications. But I am most proud of EASL’s commitment to growing its membership, with particular focus on increasing the ethnicity of its members. Although the Section can boast diversity by age, gender and geographical standards, it is not satisfied to rest on its laurels. Under the leadership of Chair Alan Barson, the Section is striving to increase the ethnic diversity of its membership and leadership so that the diversity of each, at minimum, reflects the diversity in its respective industries. Recognizing that growing a diverse membership is a shared responsibility, Alan has bestowed upon each Section member the title of “ambassador”, encouraging EASL members to reach out to one or two potential members to explain the many and varied benefits of membership.

What a terrific challenge – each one reach one . . . or two or three. As noted in my President’s Message in the September 2007 *Bar Journal*, there is a reason we are members of NYSBA. Our membership provides value and relevance and informs who we are as lawyers, as bar and community leaders, and as human beings. I can think of no better way to “grow” our membership than by enlisting every one of our members. What better entrée into this great Association, and your Section, than one who already understands that value?

I congratulate EASL on 20 successful years, and, given the Section’s forward-thinking view of the importance of a diverse membership that is truly representative of the industries it serves, I anticipate that EASL will celebrate many more successes in the years to come.

Well done!

Kathryn Grant Madigan  
110th President  
New York State Bar Association

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# New York State Bar Association

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**MARK H. ALCOTT**

Immediate Past President  
Paul Weiss Rifkind Wharton & Garrison LLP  
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January, 2008

Dear Entertainment, Arts and Sports Law Section Members:

Sections are the lifeblood of our Association. Sections provide the opportunity to debate policy, advocate for legal reform and improve the legal system. The Entertainment, Arts and Sports Law Section is a splendid example of the genre, and one of the crown jewels of our Association.

Over the years, the EASL Section has established itself as the constant voice for lawyers who practice in this dynamic field. In 1991, the Section opposed changes in the Immigration Act that would have made it more difficult for foreign entertainers to obtain work in the United States. In 1995, the Section vigorously opposed suggested budget cuts in the National Endowment for the Arts, the National Endowment for the Humanities and the Corporation of Public Broadcasting.

In addition, the Section has displayed true commitment to pro bono service through its Pro Bono Committee and its partnership with the Volunteer Lawyers for the Arts, among other organizations. The Section's pro bono clinics have assisted budding artists with a wide range of issues, including copyright registration and infringement and contract review. I applaud the Section for inspiring its members to provide pro bono service by demonstrating that such work is not only a professional responsibility but also a gratifying experience.

The Entertainment, Arts and Sports Law Section – now nearly 2000 members strong – has grown exponentially from its beginnings as a 20-member special committee. Much of this success is due to the tireless work of those who have served as Section and Committee chairs over the past two decades. I was proud to work with them as Executive Committee liaison shortly before becoming president of the Association.

Congratulations on 20 years of supporting the work of entertainment, arts and sports law attorneys not only in New York but throughout the nation by developing innovative programs, providing cutting-edge publications and supporting key policies.

Bravo!

Mark H. Alcott  
109th President  
New York State Bar Association

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June 25, 2007

Congratulations to the New York State Bar Association Entertainment, Arts and Sports Law Section on its 20<sup>th</sup> anniversary.

The Section epitomizes the values and purposes of the State Bar Association by providing a home and networking opportunity for lawyers with common interests, a forum for the exchange of ideas, and a classroom for education about the recent developments in the law. The extent to which the Section has accomplished these goals is apparent from its exponential growth in the two decades since it was founded.

Congratulations also to those who founded, and who have led, this Section since 1987, most of whom have remained active even after the end of their leadership terms, and who continued to contribute to the Section on a daily basis.

Keep up the great work. I look forward to the next milestone anniversary.

Best wishes



A. THOMAS LEVIN

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November 9, 2007

Alan D. Barson, Esq.  
Chairman,  
Entertainment, Arts and Sports Law Section, NYSBA  
Law Offices of Alan D. Barson  
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New York, NY 10003-4719

Dear Mr. Barson:

Congratulations to the Entertainment, Arts & Sports Law Section of the New York State Bar Association and its leadership on the occasion of EASL's 20<sup>th</sup> anniversary.

In just twenty years the Section has established itself as the preeminent statewide resource for lawyers to learn about this rapidly changing area, further their clients' interests, and network with others in this important sector of New York's economy.

Particularly notable are the efforts under your leadership to expand the diversity of the Section and the sector, with strategies that the profession as a whole may emulate.

Congratulations once again on this milestone year. I am proud to be a member of this exceptional group.

Sincerely,

  
Lesley Friedman Rosenthal

**Lesley Friedman Rosenthal**  
Vice President  
General Counsel And Secretary

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The Register of Copyrights of the United States of America  
United States Copyright Office · 101 Independence Avenue SE · Washington, DC 20559-6000 · (202) 707-8350

Thursday, July 05, 2007

New York State Bar Association  
Entertainment, Arts and Sports Law Section  
1 Elk Street  
Albany, NY 12207

Dear Members:

Greetings to you all, and congratulations to the Entertainment, Arts and Sports Law Section on the celebration of its 20th anniversary. This occasion gives me the opportunity to commend you, and to express my gratitude for your many contributions to the advancement of copyright law over the past two decades.

I firmly believe that our copyright system benefits from an active, engaged legal community. Indeed, the interest, scholarship and work of the entire bar help to develop our collective understanding of the law, and our appreciation for new issues as they emerge. In this respect, EASL attorneys have been vital and exemplary. The *Entertainment, Arts and Sports Law Journal*, and its frequent discussion of copyright issues, is but one example of the many ways in which you have advanced understanding of copyright over the years.

As you mark this anniversary, please accept my highest congratulations, my thanks for your many contributions, and my best wishes for many productive years to come.

Sincerely,

A handwritten signature in cursive script that reads "Marybeth Peters".

Marybeth Peters  
Register of Copyrights



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OF THE U.S.A.

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**CHAPTERS**

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14<sup>th</sup> June, 2007

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

**Re: 20<sup>th</sup> Anniversary**

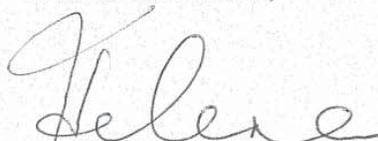
Dear Elissa:

This letter is written to congratulate you and the EASL Journal on your 20<sup>th</sup> Anniversary issue.

In this amazingly changing era regarding the world of IP, it is wonderful that some things are remaining constant. The work you have done and that the Journal has produced has been consistently interesting and of assistance to the copyright community.

The Copyright Society of the USA is happy to send its best wishes on your important Anniversary!

With our best wishes,

  
Helene Blue  
President

352 SEVENTH AVENUE, SUITE 739 • NEW YORK, NY 10001  
TEL: 212 354 6401 • FAX: 212 354 2847 • EMAIL: AMY@CSUSA.ORG

# United States Senate

WASHINGTON, DC 20510

January 2008

Entertainment, Arts, and Sports Law Section  
New York State Bar Association  
90 Quail Close  
Irvington, NY 10533

Dear Friends:

Please accept my warmest greetings and congratulations as you celebrate the 20<sup>th</sup> anniversary of the Entertainment, Arts, and Sports Law Section of the New York State Bar Association. I am grateful for the opportunity to recognize the fine work of the EASL Section on this wonderful occasion.

For two decades, the EASL Section has led the NYSBA in its innovative pro bono activities and has provided timely and affordable CLE programs. In addition to all this great work, the EASL Section also provides its members with the *EASL Journal*, which is distributed in the United States and other countries around the world. I applaud the EASL Section for its commitment and dedication to helping the community at large.

Again, congratulations and behalf of all New Yorkers, I thank you for your hard work and dedication. I hope the EASL Section will continue to serve the community for many years to come. Best wishes for a most enjoyable and memorable day.

Sincerely,



Charles Schumer  
United States Senator

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120 BROADWAY  
NEW YORK, NY 10271

ANDREW M. CUOMO  
Attorney General

(212) 416-8050

January 2008

Entertainment, Arts and Sports Law Section  
New York State Bar Association  
One Elk Street  
Albany, NY 12207

Dear Friends:

It is my pleasure to congratulate the Entertainment, Arts and Sports Law Section of the New York State Bar Association on their 20<sup>th</sup> Anniversary and to welcome everyone who has gathered for the NYSBA's Annual Meeting.

Founded in 1987 with just twenty members, EASL has grown by leaps and bounds during the past two decades. Today, it boasts a membership of almost 2000 attorneys and has distinguished itself through its cutting edge pro bono initiatives, quality CLE programs, and its internationally distributed EASL Journal.

To that end, I want to take this opportunity to commend EASL's founding members, as well as all of the men and women who have served as its Section and Committee Chairs and Officers over the years. Your leadership, vision and hard work have made EASL what it is today.

Again, congratulations on reaching this impressive milestone. I wish the Entertainment, Arts and Sports Law Section much continued success with their important endeavors.

Sincerely,

A handwritten signature in black ink, appearing to read "A. Cuomo", written over a horizontal line.

ANDREW M. CUOMO

# The Millennium Chair: Thoughts and Reminiscences

By Judith Bresler, EASL Chair 2000–2002

In 2000, our Section was embarking on a season of profound change. That it was also the beginning of a new millennium was appropriate—but incidental. What was *not* incidental were the initiatives we were undertaking to accommodate the rapidly evolving demands of the time. What were some of these initiatives?

For starters, I was your first woman Section Chair. As such, I felt an abiding responsibility to seek out, wherever possible, qualified women to fill vacancies as they arose on our Executive Committee. Happily, in that respect, we were able to start off with a fabulous team including **Edna Cowan** (Section Secretary), **Mary Ann Zimmer** (Programs Chair), **Jennifer Unter** (Young Entertainment Lawyers Chair) and **Judith B. Prowda** as our CLE Compliance Officer.

Another initiative—and one I regard as a capstone of my tenure—was the resuscitation of our Section’s *Entertainment, Arts and Sports Law Journal*. By appointing a dynamo by the name of **Elissa Hecker** as Publications Editor, we were off and running with a thriving *Journal* published three times per year and chock-a-block full of informative and useful articles for practitioners—talk about a membership amenity!

Also in keeping with the times—and providing still another terrific amenity to our Section members—was the launching of EASL’s own Web site—thanks to the tireless efforts and devoted leadership of **Ken Swezey** and **David Sternbach** who, at the time, were the Co-Chairs of our New Technologies Committee. It was thrilling to see the final end product arising from the labors of that resourceful Committee.

Toward the end of my tenure, Phil Cowan, a founding member and former Chair of our Section, died after a courageous battle with cancer. Phil was an exceptional human being in so many respects and to honor his memory our Section, including a number of its former Chairs—notably Founding Chair **Marc Jacobson**, **Eric Roper**, **Howard Siegel**, **John Kettle**, **Sam Pinkus** and **Tim DeBaets**—took steps to implement what is now the Phil Cowan/BMI Memorial Scholarship which, on a yearly basis, awards monies to as many as two deserving law students who are committed to practicing in the areas of entertainment, art or sports law. BMI came onboard as a partner through the sustained—and enormously appreciated—efforts of **Gary Roth**, who has ably chaired a number of EASL committees and is currently serving as Member-at-

Large. We have awarded such Scholarships now, based on a writing competition, for three years running and look forward to the Scholarship’s continued success.

We also had some marvelous and highly successful Committee and Section-wide programs and collaborations during my tenure. A few that come readily to mind: a day-long CLE-accredited collaboration between EASL and the Appraisers Association of America entitled *Attorneys and Appraisers: Forging Professional Relationships in the Law and Business of Art*; a day-long CLE Sports Law Symposium in association with New York Law School, arranged by the then-Co-Chairs of our Professional Sports Committee, **Jeffrey Gerwitz** and **Jeffrey Rosenthal**; a day-long CLE collaboration between EASL and the Philadelphia Volunteer Lawyers for the Arts entitled *Art Law for the Millennium*; an EASL Spring Program entitled *Ethical Issues that Arise in Entertainment, Arts and Sports Law*; as well as a host of terrific Committee-sponsored programs too numerous to mention, though I remember with deep appreciation the extraordinary productivity in that vein of both **Alan Hartnick**, then Chair of the Copyright and Trademark Committee, and **Jay Kogan**, then Chair of the Literary Works and Related Rights Committee.

Another highlight in memory was our Annual Meetings’ Meet and Mingle buffet lunches. Breaking with what was then EASL tradition of having a post-Annual Meeting meal at the Marriott Marquis, we held our lunch off-site in the Skybox Room at the ESPN Zone. There was no lunch speaker . . . but there were plenty of good eats and spirits, interesting lunch guests and conversation, many happy members—and free games. Couldn’t get much better!

The same goes for my team at the time: aside from those I’ve mentioned, I had a superb Vice Chair in **Jeffrey Rosenthal** (okay, I’ve mentioned you twice!), a superlative Secretary in **Alan Barson**, EASL’s current Chair, an indispensable Treasurer in **Steve Rodner**, and an extremely wise **Steve Richman** (whose advice I sought on numerous occasions) as Legislation Chair. I was also exceedingly lucky to have **Peter Herbert** as Litigation Chair, **Mark Allen** as Music and Recording Industry Chair, **Howard Singer** as Membership Chair, **Ralph Lerner** as Fine Arts Chair, and last but certainly not least, **Joshua Bressler** as Publicity, Privacy and Merchandising Chair.

All in all, it was a great run!

# Treasurer's Report

By Stephen Rodner

Having been Treasurer of EASL for a good part of its 20-year history, I have been asked to write a brief memoir of my tenure. It has really been an honor for me, and a great pleasure, working with EASL, the Executive Committee and numerous Chairs over the years.

I remember well when I was originally asked to be Treasurer that the Section was somewhat smaller, our budget was not nearly as large as it is now and the job of Treasurer was not very stressful. We were running a surplus in those days and did not have much concern (or control) over our spending. At that time we were not sponsoring any major programs or events.

It was smooth sailing for a while. Then, all of a sudden, several years ago, we noticed on the budget a significant deficit. This caused the Executive Committee to sit up and take notice and certainly made my relatively easy job no longer easy. After investigation as to why the deficit appeared, we found that it was largely due to costs of setting up the Section Web site, which had not been subsidized by the Association, and from an out-of-town conference that unfortunately generated a loss.

Costs then became a big concern. We huddled and decided that we really needed to eliminate the deficit. Obviously, costs needed to be cut, and we instituted a

strict policy that all of our programs must either be self-sustaining or operate at a profit, something about which we had not been concerned before.

I then found myself in the position of being the "bad guy," of having to approve expenses relating to programs. Fortunately, our programs were wonderfully attended and we were able to significantly reduce the deficit by making profits on our programs and cutting other costs. In conjunction with this, we also appealed to the good folks in Albany to help us with the costs that we incurred for our Web site, which had been absorbed and run by the Association.

Fortunately, the State Bar Association was receptive to our appeal and they agreed to help us reduce our deficit by forgiving some of the losses from the Web site costs on the condition that we would cut other costs. I am proud to say that, because of the efforts of everybody on the Executive Committee and all of the committee chairs during this process, our Section is now running a surplus. This is due in large part to the great and successful programs and events sponsored by various committees of the Section and by the Executive Committee. I look forward to continuing to serve as Treasurer and to see the Section grow and expand.



VOLUNTEER LAWYERS FOR THE ARTS

***Volunteer Lawyers for the Arts congratulates the Entertainment, Arts, and Sports Law Section on its 20th anniversary! Over the years, VLA and EASL have collaborated on numerous well-received educational events and EASL has co-sponsored many successful VLA Legal Clinics. VLA looks forward to continuing our relationship with EASL in the future!***

Since 1969, Volunteer Lawyers for the Arts has been the leading provider of pro bono legal services, mediation, educational programs and publications, and advocacy to the arts community in New York and beyond. Through public advocacy, VLA frequently acts on issues vitally important to the arts community – freedom of expression and the First Amendment being an area of special expertise and concern. The first arts-related legal aid organization, VLA is the model for similar organizations around the world.



**Volunteer Lawyers for the Arts**  
1 East 53rd Street, 6th Floor, New York, NY 10022  
212.319.2787 | [www.vlany.org](http://www.vlany.org)



# New York State Bar Association

One Elk Street, Albany, New York 12207 • 518/463-3200 • <http://www.nysba.org>

## ENTERTAINMENT, ARTS AND SPORTS LAW SECTION

2006-2008 Executive Committee

### ALAN D. BARSON

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853 Broadway  
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212/254-0500  
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### KENNETH N. SWEZEY

Vice-Chairman  
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### JUDITH B. PROWDA

Secretary  
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### STEVEN B. RODNER

Treasurer  
Pryor Cashman et al  
410 Park Avenue  
New York, NY 10022  
212/326-0150  
FAX 212/798-6344

### SECTION DELEGATE:

Alan D. Barson  
Bennett Leibman

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Alan J. Hartnick

#### SECOND DISTRICT

David H. Faux

#### THIRD DISTRICT

Bennett M. Liebman

#### FOURTH DISTRICT

Paul V. Sciocchetti

#### FIFTH DISTRICT

Vacant

#### SIXTH DISTRICT

James A. Salk

#### SEVENTH DISTRICT

Mark A. Costello

#### EIGHTH DISTRICT

Leslie Mark Greenbaum

#### NINTH DISTRICT

Arnold A. Gurwitch

#### TENTH DISTRICT

Rosemarie Tully

#### ELEVENTH DISTRICT

Eric M. Berman

#### TWELFTH DISTRICT

Vacant

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Elissa D. Hecker

### FOUNDING CHAIRMAN:

Marc Jacobson

### FORMER CHAIRS:

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Howard Siegel

Philip M. Cowan

John R. Kettle, III

Samuel L. Pinkus

Timothy J. DeBaets

Judith A. Bresler

Jeffrey A. Rosenthal

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#### ALTERNATIVE DISPUTE RESOLUTION

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Judith B. Prowda, Co-Chair

#### COPYRIGHT and TRADEMARK

Jay Kogan, Co-Chair

Neil J. Rosini, Co-Chair

#### FINE ARTS

Judith B. Prowda

#### LEGISLATION

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Stanley H. Schneider, Co-Chair

January, 2008

Dear Entertainment, Arts and Sports Law Section Members:

As liaison to the Entertainment, Arts and Sports Law Section (EASL), I have had the great pleasure of working with numerous brilliant and talented individuals who are driven to succeed in maintaining the section's goals by increasing their membership and reducing budgetary constraints. Along with my liaison role, I have also served as the section's programs coordinator.

The educational programs that EASL committees have conducted for the past several years have been very creative and well thought out. Members have found the programs' broad range of topics to be of great value and interest. Committees such as Fine Arts, Literary Works & Related Rights, Motion Pictures, Music & Recording, Theatre & Performing Arts, Television & Radio, and Young Entertainment Lawyers, should be very proud of their work, which certainly has been a key for the section's success.

EASL's leadership and members are an extremely conscientious group of people, who thrive at spreading the word about their profession and are proud of being a member of NYSBA's Entertainment, Arts and Sports Law Section.

Congratulations on your 20th Anniversary and for continued success in the future.

Juli Turner

Immediate Past NYSBA Staff Liaison  
Entertainment Arts and Sports Law Section  
New York State Bar Association

#### PRO BONO

Elissa D. Hecker, Co-Chair

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#### SPORTS

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Anthony J. Dreyer, Co-Chair

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#### MEMBERS-AT-LARGE

Peter Herbert

Leonard Orkin

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*Do the Public Good • Volunteer for Pro Bono*



# New York State Bar Association

One Elk Street, Albany, New York 12207 • 518/463-3200 • <http://www.nysba.org>

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January, 2008

Dear Entertainment, Arts and Sports Law Section Members:

Soon after I came to NYSBA to head the Pro Bono Affairs Department, I wondered if the State Bar-sponsored Pro Bono Coordinators Network should seek to work with Sections to encourage them to do pro bono through existing pro bono programs statewide. Before I even had a chance to think much about the topic, I read an article in *State Bar News* about the pro bono program of the Entertainment, Arts and Sports Law Section. I was dumbfounded at what they had done in pro bono. They did not need Pro Bono Affairs or the Network to inspire them. Quite the opposite. They were way ahead of all of us. In my mind, the names of Elisabeth Wolfe and Elissa Hecker, the Section's pro bono co-chairs, became synonymous with creative pro bono. And indeed, Elisabeth Wolfe went on to win a richly deserved NYSBA President's Pro Bono Service Award.

What is perhaps most impressive is the five years of clinics EASL attorneys have participated in at Volunteer Lawyers for the Arts in Manhattan two to four times a year.

The Section provides such a large number of steady volunteers for a wide range of issues, from copyright to songwriters' contracts. For all the section's pro bono activities, EASL also does a sophisticated job of publicizing their activities in the section's *Journal*, as well as providing information on pro bono opportunities.

Bravo, EASL Section!

Cynthia Feathers, Esq  
Former NYSBA Director of Pro Bono Affairs

*Do the Public Good • Volunteer for Pro Bono*

# Broadening Pro Bono, Arts Included

By Kenneth G. Standard and Nazneen Malik

Lawyers have a professional and social responsibility to serve the public good. This principle, “pro bono,” is a cornerstone of the legal profession and fundamental to the conception of law as a medium through which to promote justice and the betterment of society. Despite the numerous ways to serve the public good, pro bono activities are viewed by many solely in the context of dispensing free legal services to the poor. While it is important in a highly regulated society like ours to provide the indigent with access to legal representation, limiting the concept of pro bono work to serving only this segment of society would be a disservice to society as a whole. Other entities that benefit society, such as the not-for-profit segment of the arts community, may be less able to do so if denied access to free or low cost legal services. Many in the legal community have recognized that an effort to narrow the focus of pro bono to legal services for the indigent may not result in more lawyers serving this segment, but in discouraging lawyers from providing pro bono services to other deserving areas of our society.

Historically, pro bono was dispensed informally via individual lawyers. “Pro bono” is derived from the Latin phrase *pro bono publico*, which means “for the public good.” Thus, implicit in the term is the notion that activities undertaken for the public good should benefit the entire public. The term is inclusive rather than exclusive. In 2005, the New York State Bar Association (“NYSBA”) House of Delegates, after lengthy examination and spirited debate, clarified the scope of activities that it considered fell under the pro bono umbrella. Although there was some expressed concern that expanding the definition would undercut the needs of legal services groups and others relying on pro bono attorneys, the NYSBA House of Delegates maintained that the profession should recognize the broad range of services lawyers can, and do, provide for the public good. As a result, in New York, in addition to providing voluntary legal services to the poor, pro bono includes, among other things, personal financial support and advocacy for greater public and private financial support for legal services to the indigent and legal services to not-for-profit organizations. Moreover, embracing the broader definition of pro bono encourages and enables more lawyers to participate in activities that are of personal interest. The broader definition recognizes that lawyers who want to contribute to society through pro bono work but perhaps do not have the experience or skills needed to competently represent the poor can still do so. In other words, in order for the public to be benefited in general, a lawyer need not concentrate simply on direct services for the poor.

While there is no doubt that providing legal services to the financially needy in both criminal and civil capacities is pro bono work, an expansive view of pro bono supports the provision of services, both legal and financial, to the arts community, among other worthwhile nonprofit organizations, which do not have adequate funding to obtain market rate legal services. The arts, for example, foster beauty in society, which can be appreciated by the entire public and enhance our society to the benefit of everyone. Furthermore, not only are the arts important for their aesthetic value; they can, and have, played a pivotal role in education, community building, and economic prosperity.

Numerous studies have shown that students with arts programs in their schools perform better academically than those who do not have such support. Participation in music and theater programs, for example, has been correlated with success in math and reading, respectively. Furthermore, the arts regularly engage multiple skills and abilities, thereby improving social and cognitive development. According to the College Board in 2006, students who took four years of art and music classes scored an average of 103 points better on their SATs (excluding the writing portion) than students who took classes for half a year or less.<sup>1</sup> Studies also show that arts classes increase test scores, overall academic performance, and community service while lowering dropout rates.<sup>2</sup> Moreover, in an increasingly consumer-driven, service-based economy replete with ongoing technological innovations, the arts develop the imagination and nurture the flexible and creative thinking required to thrive in such an environment. The arts also help level the playing field for children from disadvantaged backgrounds. Effective arts-based youth organizations place a strong emphasis on developing these skills.<sup>3</sup>

Engaging youth in arts initiatives, especially at-risk youth, helps them better develop the skills needed to become contributing members of society. For example, a study conducted in 2000 by Americans for the Arts, National Endowment for the Arts and the U.S. Department of Justice in three cities (14 months in Atlanta, Georgia; 19 months in Portland, Oregon; and 22 months in San Antonio, Texas) found that after participating in an arts program, the group improved their communication skills from a baseline of 29 percent who were able to communicate effectively to 86 percent at the end of the study period. The study also found that the arts program deterred delinquent behavior and led to fewer court referrals.<sup>4</sup>

The arts also promote economic prosperity. In 2005, the arts sector provided 5.7 million jobs.<sup>5</sup> According to a recent report entitled *Arts & Economic Prosperity III*, the nonprofit arts industry alone generates \$166.2 billion in economic activity every year, resulting in \$29.6 billion in federal, state, and local tax revenues (excluding New York and Los Angeles). Furthermore, the report also stated that the United States nonprofit arts and culture industry has grown steadily since 1992 and is expanding at a rate greater than inflation.<sup>6</sup> Between 2000 and 2005, spending by nonprofit organizations and their audiences grew by 24 percent, from \$134 billion to \$166.2 billion.<sup>7</sup> The result is more jobs, more tax revenues, and more disposable income. The nonprofit arts and culture industry helps cities and local businesses by drawing tourists and attracting investment in the area. By creating “cultural hubs,” the industry helps rebuild and redefine decaying cities while creating new business opportunities. Thus by aiding the nonprofit arts industry through pro bono work, lawyers also serve the public through its secondary positive effect on job growth, economic prosperity, and the nation’s youth.

By embracing a more inclusive view that is in keeping with its literal, original meaning, we will encourage more lawyers to join in performing the pro bono work of their choice. That choice might be providing pro bono representation challenging the constitutionality of the Patriot Act or providing legal assistance to detainees at Guantanamo Bay. It also might be aiding victims of disasters like Katrina or 9/11. All of these events drew many pro bono lawyers to aid those in need, regardless of their economic standing. Thus, while nonprofit arts-based organizations are well worth pro bono assistance, they

are just one area of possible pro bono efforts undertaken for the benefit of society as a whole.

On the occasion of the New York State Bar Association’s Entertainment, Arts, and Sports Law Section’s 20th Anniversary, I salute the Section for all the valuable work it has done in the area of pro bono and for its continued commitment to fostering the flourishing of the arts.

## Endnotes

1. The College Board SAT, 2006. *2006 College-Bound Seniors: Total Group Profile Report*, available at: [http://www.artsusa.org/pdf/get\\_involved/advocacy/research/2007/SAT.pdf](http://www.artsusa.org/pdf/get_involved/advocacy/research/2007/SAT.pdf).
2. *Id.*
3. Edward B. Fiske, *Champions of Change: The Impact of the Arts on Learning* (1999), available at: [http://aep-arts.org/publications/info.htm?publication\\_id=8](http://aep-arts.org/publications/info.htm?publication_id=8).
4. Americans for the Arts, *The Benefits of Arts Programs to At-Risk Youth* (2000), available at: [http://www.artsusa.org/get\\_involved/advocacy/advocacy\\_004.asp](http://www.artsusa.org/get_involved/advocacy/advocacy_004.asp).
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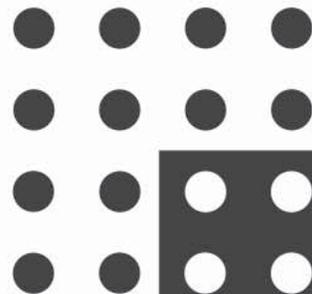
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# The Constitutional Challenge to Statutory Damages for Copyright Infringement: Don't *Gore* Section 504

By Steven M. Tepp

In its 1996 decision in *BMW v. Gore*, the Supreme Court read the Due Process Clause of the Fourteenth Amendment to impose limitations on the discretion of juries to impose punitive damages.<sup>1</sup> Recently, some defendants in copyright infringement cases have argued that the standard set forth in *Gore* should be applied at least to limit the Copyright Act's provision of statutory damages for civil infringement on the grounds that such damages are unconstitutionally excessive, punitive damages.<sup>2</sup> Although no court has ever accepted this argument, there is a relative paucity of decisions on the subject, leaving the ultimate direction of the law in some doubt. This article seeks to begin to fill the void by providing a comprehensive review of the question. Part I will recount the history of statutory damages in copyright, demonstrating that they are a long-standing aspect of U.S. law and the product of over two centuries of collective wisdom. Part II will summarize the three-part test the Court crafted in *Gore* and note the policy considerations that drove the Court's rationale in that case and its progeny. Part III will analyze whether to apply and what result accrues from the application of that three-part test to statutory damages for copyright infringement. This article concludes that copyright statutory damages are different from the punitive damages at issue in *Gore*, do not raise the policy concerns that were present in *Gore*, that the three-part test does not apply, and that even if that test were applied, the provisions of the Copyright Act would pass muster.

## I. History of Statutory Damages for Copyright Infringement

Statutory damages for civil copyright infringement (hereinafter "statutory damages") are among the most venerable aspects of American copyright law. Prior to the ratification of the Constitution, several state copyright statutes provided for either a statutory maximum and minimum award (Massachusetts, New Hampshire, and Rhode Island) or a fixed sum to be paid for each infringing copy (Maryland and South Carolina).<sup>3</sup>

After the ratification of the Constitution, Congress wasted little time in enacting federal copyright protection. The Copyright Act of 1790 included a provision for statutory damages; it was "fifty cents for every [infringing] sheet . . . one [half] thereof to and for the use of the United States."<sup>4</sup> It is noteworthy that from the very first instance of federal copyright protection, statutory damages have served a hybrid purpose beyond merely compensating the aggrieved copyright owner.

Through much of the nineteenth century statutory damages were increased and expanded to apply to the infringement of newly protected categories of works.<sup>5</sup> However, in the Copyright Act of 1895, Congress for the first time departed from the traditional manner of calculation of statutory damages (per infringing copy/performance) to the standard we are familiar with today (per infringed work).<sup>6</sup> While maintaining the traditional method for some categories of works, the Act provided:

In the case of infringement of a copyrighted photograph made from any object not a work of fine arts, the sum recovered was to be not less than \$100 nor more than \$5,000, and that in the case of infringement of a copyright in a painting, drawing, engraving, etching, print, or model or design for a work of art, or a photograph of a work of the fine arts, the sum to be recovered was to be not less than \$250 nor more than \$10,000. One half of such sum accrued to the copyright proprietor and the other half to the United States.<sup>7</sup>

The Copyright Act of 1909 generally carried forward the statutory damages provisions of the 1895 Act, but two aspects of that enactment are noteworthy. First, in what appears to be an historically unique instance, Congress reduced the maximum level of statutory damages to \$5,000. This appears to have been in direct response to the testimony of a prominent attorney who believed that an adverse judgment in a prior infringement action was a direct result of the judge's unwillingness to impose the level of statutory damages that the law would have compelled had infringement been found, but which "were altogether incommensurate with any suffering which [the plaintiff] had endured or with any profit which our opponent had derived from the practice."<sup>8</sup>

Second, in setting the levels of statutory damages, it is evident that Congress made an effort to approximate realistic levels of actual damages. The legislative history contains examples of this with regard to musical works reproduced in the form of player piano rolls<sup>9</sup> and newspaper reproduction of photographs.<sup>10</sup> Thus, historically, Congress has specifically acted to set statutory damages at levels that were compensatory and not likely to produce manifestly unjust or extravagant awards.

The Copyright Act of 1976<sup>11</sup> put in place the statutory damages structure that remains the law today.<sup>12</sup> Those amendments did away entirely with the “per infringing copy” standards in favor of a single “per infringed work” framework applicable to all copyrightable works: \$250 to \$10,000. In order to address concerns about the unjust application of statutory minimums to “innocent” infringers, a sub-minimum of \$100 was established.<sup>13</sup> Conversely, a ceiling of \$50,000 was established for instances where the plaintiff demonstrates that the infringement was willful.<sup>14</sup>

The extensive legislative history of the 1976 Act provides useful insight into how and why statutory damages are structured the way that they are. In a report to Congress, the Register of Copyrights reviewed the principles undergirding statutory damages:

The need for this special remedy arises from the acknowledged inadequacy of actual damages and profits:

- The value of a copyright is, by its nature, difficult to establish, and the loss caused by an infringement is equally hard to determine. As a result, actual damages are often conjectural, and may be impossible or prohibitively expensive to prove.
- In many cases, especially those involving public performances, the only direct loss that could be proven is the amount of a license fee. An award of such an amount would be an invitation to infringe with no risk of loss to the infringer.
- The actual damages capable of proof are often less than the cost to the copyright owner of detecting and investigating infringements.
- An award of the infringer’s profits would often be equally inadequate. There may have been little or no profit, or it may be impossible to compute the amount of profits attributable to the infringement. Frequently, the infringer’s profits will not be an adequate measure of the injury caused to the copyright owner.

In sum, statutory damages are intended (1) to assure adequate compensation to the copyright owner for his injury and (2) to deter infringement.<sup>15</sup>

In considering the appropriate maximum and minimum amounts of statutory damages, great attention was paid to both the adequacy of the compensation and

deterrent effect as well as to the desire to avoid exorbitant awards, especially in instances of multiple infringements.<sup>16</sup> The question of multiple infringements was addressed in several ways, including the minimum level of ordinary statutory damages and the still lower level available in the case of innocent infringers.<sup>17</sup> In the end, Congress was satisfied that these safeguards allowed the statutory damages system to serve its purpose without imposing undue levels of liability.<sup>18</sup>

The dollar amounts for statutory damages were all doubled by the Berne Convention Implementation Act of 1988.<sup>19</sup> Those amounts were later raised by fifty percent (except the innocent infringer level, which remained at \$200) by the Digital Theft Deterrence and Copyright Damages Improvement Act of 1999,<sup>20</sup> bringing us to the current range of \$750 to \$30,000, or up to \$150,000 where the infringement was willful.<sup>21</sup> The legislative history of the latter clearly states Congress’ concerns that digital technology and the Internet had resulted in substantial economic costs to copyright owners and the U.S. economy as a whole.<sup>22</sup> Congress saw a need to increase the level of statutory damages because:

[m]any computer users . . . simply believe that they will not be caught . . . [a]lso, many infringers do not consider the current copyright infringement penalties a real threat and continue infringing, even after a copyright owner puts them on notice. . . . In light of this . . . H.R. 1761 increases copyright penalties to have a significant deterrent effect on copyright infringement.<sup>23</sup>

This demonstrates Congress’ view that statutory damages must both provide compensation and result in deterrence; Congress did not describe statutory damages as punitive.

## II. Due Process and Punitive Damages

### A. *BMW v. Gore*<sup>24</sup>

Outside the copyright context, in 1996, the Supreme Court struck down an award of \$2 million in punitive damages on top of a \$4,000 award in compensatory damages by an Alabama state court to Mr. Ira Gore, Jr., the purchaser of a used BMW automobile to whom the dealer did not disclose that the vehicle had been repainted since its initial manufacture.<sup>25</sup> The basis of the Court’s decision was that the award was “grossly excessive” and therefore violated the Due Process Clause of the Fourteenth Amendment.<sup>26</sup> The Court set forth three “guideposts” for evaluating whether punitive damages are grossly excessive: the degree of reprehensibility of the defendant’s conduct, the disparity between the harm or potential harm suffered by the plaintiff and the punitive damages award, and the difference between this remedy and the penalties authorized in comparable situations.<sup>27</sup>

The first guidepost is the degree of reprehensibility of the defendant’s conduct. The Court described the de-

gree of reprehensibility guideline as “[p]erhaps the most important indicium of the reasonableness of a punitive damages award.”<sup>28</sup> Specifically mentioned as reprehensible were “crimes marked by violence,” “trickery and deceit,” and “intentional malice.”<sup>29</sup> The Court also noted that “infliction of economic injury, especially when done intentionally through affirmative acts of misconduct . . . can warrant a substantial penalty.”<sup>30</sup> Further, the Court held that “evidence that a defendant has repeatedly engaged in prohibited conduct while knowing or suspecting that it was unlawful would provide relevant support for an argument that strong medicine is required to cure the defendant’s disrespect for the law.”<sup>31</sup>

The second guidepost rejects outright any notion that punitive damages could be subjective, demanding instead that “exemplary damages must bear a ‘reasonable relationship’ to compensatory damages.”<sup>32</sup> It is perhaps telling that in citing examples of existing federal law which provide punitive damages, the Court cited the treble damages provisions of trademark law and patent law, but not the statutory damages provisions of the Copyright Act.<sup>33</sup>

In assessing a reasonable ratio, the Court “rejected the notion that the constitutional line is marked by a simple mathematical formula. . . . We can say, however, that a general concer[n] for reasonableness . . . properly enter[s] into the constitutional calculus.”<sup>34</sup> Expanding on this, the Court observed that “[a] higher ratio may also be justified in cases in which the injury is hard to detect or the monetary value of noneconomic harm might have been difficult to determine.”<sup>35</sup> Nonetheless, the Court did appear to put an outer boundary on the ratio at 10-1.<sup>36</sup>

The third guidepost is the sanctions for comparable misconduct. This provides for a comparison of the punitive damages to both civil and criminal penalties that are available.<sup>37</sup> In conducting this comparison, the Court instructed that “a reviewing court engaged in determining whether an award of punitive damages is excessive should ‘accord “substantial deference” to legislative judgments concerning appropriate sanctions for the conduct at issue.’”<sup>38</sup> While it clearly referenced criminal penalties, the Court gave no guidance on how to place a value on imprisonment.

## B. Subsequent Case Law

Since *Gore*, the Supreme Court has issued two more rulings that have provided a bit more context and detail for the application of the guideposts. In *State Farm v. Campbell* the Court reversed a punitive damages award by a Utah state court of \$145 million on top of an award of \$1 million in compensatory damages to Ms. Inez Campbell and the estate of her late husband for State Farm’s bad faith, fraud, and intentional infliction of emotional distress.<sup>39</sup> The Court reiterated the underpinning of its application of the Due Process Clause to punitive

damages, noting that “elementary notions of fairness enshrined in our constitutional jurisprudence dictate that a person receive fair notice not only of the conduct that will subject him to punishment, but also of the severity of the penalty. . . .”<sup>40</sup>

In early 2007 the Court reversed an award of \$79.5 million in punitive damages on top of an award of \$821,000 in compensatory damages to the estate of a smoker in *Philip Morris USA v. Williams*.<sup>41</sup> In its decision, the Court noted that it “has long made clear that ‘punitive damages may properly be imposed to further a State’s legitimate interests in punishing unlawful conduct and deterring its repetition.’”<sup>42</sup> Importantly, the Court also held that, “[u]nless a State insists upon proper standards that will cabin the jury’s discretionary authority, its punitive damages system may deprive a defendant of ‘fair notice,’ . . . it may threaten ‘arbitrary punishments’ . . . that reflect not an ‘application of law’ but ‘a decisionmaker’s caprice.’”<sup>43</sup> Taken together, *State Farm* and *Philip Morris* indicate that the Court’s due process concerns were both procedural (notice) and substantive (not capricious).<sup>44</sup>

## III. Can and Should the *Gore* “Guideposts” Be Applied to Statutory Damages?

While the *Gore* guideposts apply to punitive damage awards, there is no indication from the Court that they should or do apply to statutory damages. A threshold question to address is whether statutory damages are punitive. As noted above, there are different levels of statutory damages available for innocent infringements, ordinary infringements, and willful infringements. For purposes of this analysis, this article considers that there are two levels, or types, of statutory damages: compensatory and enhanced. The innocent infringer reduction is a sub-class of the first, or compensatory type.<sup>45</sup>

### A. Are Compensatory Statutory Damages Punitive?

It appears elementary that compensatory damages are not punitive and thus not subject to the guideposts. However, two instances have been presented where statutory damages are argued to be punitive in effect. The first is where even the minimum statutory damages award is grossly excessive in comparison to actual damages. The second is where multiple infringements generate a huge total statutory damages award.

The first instance is claimed by some to exist in the context of lawsuits for infringement arising from the use of file-sharing software. In this instance, some have suggested that the actual damages to the plaintiffs are a mere seventy cents, a common royalty rate paid to the copyright owner of a sound recording for the licensed download of that sound recording.<sup>46</sup> Compared to the statutory minimum of \$750, this is a remarkable discrepancy. Yet this valuation ignores the degree to which the infringement facilitates and promotes other infringe-

ments of the work and the extent to which it contributes to the popularity of peer-to-peer infringements.<sup>47</sup> The flaw in this narrow view of compensation was described nearly a half a century ago by the Register of Copyrights, who noted that an award of mere licensing fees “would be an invitation to infringe with no risk of loss to the infringer.”<sup>48</sup>

Beyond the example of peer-to-peer infringement, this raises the question of whether the \$750 minimum is so high that it is likely to produce awards beyond actual damages. Indeed, common consumer products like CDs, DVDs, books, and videogames all cost substantially less than \$750. Of course, the statutory damages framework is applied on a per infringement basis, so a thousand infringing copies of a single work is subject to the same \$750 minimum statutory damages award as a single infringing copy.

This leaves the instance involving a single or very few infringements of a single work. The infringer would be subject to a minimum of \$750 in statutory damages. Of course, that award would come about only as a result of federal litigation. One might reasonably conclude that litigation in such an instance is highly unlikely given the time and expense of the undertaking relative to the damage done and likely award. Granted, a successful plaintiff might be able to obtain an award that includes attorney’s fees,<sup>49</sup> but there is no guarantee that will be the case. It simply does not make sense to risk tens of thousands of dollars in litigation expenses over a \$750 award. Even if one might imagine a sufficiently headstrong plaintiff, willing to bring such a case and completely uninterested in settlement, the entire scheme of statutory damages ought not rise or fall over such a far-fetched and unlikely scenario.

As discussed earlier, Congress has historically made an effort to adjust statutory damages to properly compensatory levels.<sup>50</sup> Presumably, the \$750 minimum represents Congress’ judgment as to the lowest reasonable estimation of the true actual damages. It is worth noting that, adjusted for inflation, statutory damages are considerably lower today than they were in 1909. For example, the \$250 minimum in the 1909 Act equates to well over \$5,000 today.<sup>51</sup>

The second instance in which some have suggested that statutory damages are punitive is multiple infringements generating a huge statutory damages award.<sup>52</sup> While the argument may have use as a polemic tool, it fails to advance the legal analysis. Indeed, the infringement of a huge number of works *should* result in a huge award of damages, lest it fail to compensate the copyright owner and/or allow the infringer to retain some amount of profit from its illegal activity. Moreover, as discussed above, Congress has given the issue of multiple infringements specific attention and the law reflects its judgment as to how best to achieve compensation.<sup>53</sup>

## B. Are Enhanced Statutory Damages Punitive?

Where a court has found the defendant’s infringement willful and awarded an enhanced level of statutory damages, there is a better argument that the award is punitive. In describing the purpose of statutory damages, Congress has referred to compensation and deterrence.<sup>54</sup> Deterrence is not necessarily synonymous with punishment, even though they both may be achieved through the same means: monetary awards in excess of mere compensation. The distinction thus appears to exist in the policy goal that drove the enactment of statutory damages, not the means through which that goal is achieved.

The Supreme Court has stated that deterrence is one of the objectives of punitive damages.<sup>55</sup> Yet the opposite is not necessarily true; while statutory damages clearly are designed to be deterrent, that objective is not paired with punishment or retribution.<sup>56</sup> Perhaps this explains the apparent distinction the Supreme Court perceives between treble damages and statutory damages.<sup>57</sup>

The aim of providing civil remedies for copyright infringement that are deterrent but not punitive is consistent with the global standards for copyright protection found in the World Trade Organization:

The judicial authorities shall have the authority to order the infringer to pay the right holder damages adequate to compensate for the injury the right holder has suffered. . . .<sup>58</sup>

Members shall ensure . . . remedies which constitute a deterrent to further infringements.<sup>59</sup>

Similarly, numerous Free Trade Agreements which the United States has ratified obligate the signatories to provide statutory damages “in an amount sufficiently high to constitute a deterrent to future infringements and with the intent to compensate the right holder. . . .”<sup>60</sup>

By its terms, the guideposts employed by the Court in the *Gore* line of cases apply to punitive damages. While statutory damages may have one aspect in common with punitive damages (deterrence), that does not transform them into punitive damages.<sup>61</sup>

The Sixth Circuit recently recognized this distinction in *Zomba Enterprises, Inc. v. Panorama Records, Inc.*<sup>62</sup> In that case, defendant Panorama was found to have willfully infringed plaintiff Zomba’s copyright in certain musical works. Enhanced statutory damages of \$31,000 for the infringement of each of 26 works were awarded, totaling \$806,000.<sup>63</sup> Panorama challenged the constitutionality of the award on due process grounds. The court noted the distinction between the Supreme Court’s rulings regarding punitive damages in *Gore* and *State Farm* and the question of statutory damages at bar.<sup>64</sup> Finding “no case invalidating such an award of statutory damages under

*Gore* or *Campbell* [*State Farm*] . . .” the court declined to apply the guidelines. Instead, the court applied the standard set forth by the Supreme Court in *St. Louis, I.M. & S. Ry. Co. v. Williams*, that the statutory award is to be invalidated “only where the penalty prescribed is so severe and oppressive as to be wholly disproportionate to the offense and obviously unreasonable.”<sup>65</sup>

It appears that Congress’ stated intent in enacting was deterrent but not punitive. This distinction carries over into international characterizations of statutory damages. Furthermore, the Supreme Court has chosen to apply a completely different standard in recent punitive damages cases than it has historically in the statutory damages context. Thus, there is good reason to view statutory damages as deterrent, but not punitive. As such, the *Gore* line of cases does not apply and should not be applied. If any due process standard must be applied in the review of statutory damages, it is the one the Supreme Court has itself applied in the *Williams* decision.

### C. Do Statutory Damages Implicate the Policy Considerations Present in the *Gore* Line of Cases?

Even if statutory damages could be construed as punitive, one might fairly question whether the concerns the Court had with the punitive damage awards in *Gore*, *State Farm*, and *Philip Morris* would be present in the context of a statutory damages award. As noted above, the due process concerns that have moved the Court are fair notice of the offense and the severity of the penalty.<sup>66</sup> In contrast to unregulated punitive damages awards (such as those at issue in *Gore* and its progeny), the scope of copyright protection and the provision of statutory damages for infringement are clearly codified in federal law and have been so for over two centuries. No serious contention can be made that there is a lack of notice in either respect. “The unregulated and arbitrary use of judicial power” that the *Gore* guideposts remedy is not implicated in Congress’ carefully crafted and reasonably constrained statute.<sup>67</sup>

To the extent that a defendant may argue that the range of damages available is “grossly excessive,” it is noteworthy that Congress has throughout the history of the Copyright Act sought to calibrate statutory damages at a reasonable level based on objective market prices and expert testimony.<sup>68</sup> It is a tall order to contend to a court that despite the peaceful coexistence of the Due Process Clause and statutory damages for over two centuries, the latter is inconsistent with the former. Indeed, the Supreme Court has already had several opportunities to consider the constitutionality of aspects of the Copyright Act that, like statutory damages, trace their origin back to 1790. The most recent was *Eldred v. Ashcroft* in 2003:

The [appeals] court recounted that “the First Congress made the Copyright Act

of 1790 applicable to subsisting copyrights arising under the copyright laws of the several states.” [*Eldred v. Reno*, 239 F.3d 372 (D.C. Cir. 2001).] That construction of Congress’ authority under the Copyright Clause “by [those] contemporary with [the Constitution’s] formation,” the court said, merited “very great” and in this case “almost conclusive” weight. *Ibid.* (quoting *Burrow-Giles Lithographic Co. v. Sarony*, 111 U.S. 53, 57, 28 L. Ed. 349, 4 S. Ct. 279, 1884 Dec. Comm’r Pat. 186 (1884)). As early as *McClurg v. Kingsland*, 1 How. 202, 42 U.S. 202, 11 L. Ed. 102 (1843), the Court of Appeals added, this Court had made it “plain” that the same Clause permits Congress to “amplify the terms of an existing patent.” 239 F.3d at 380. The appeals court recognized that this Court has been similarly deferential to the judgment of Congress in the realm of copyright. *Ibid.* (citing *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417, 78 L. Ed. 2d 574, 104 S. Ct. 774 (1984); *Stewart v. Abend*, 495 U.S. 207, 109 L. Ed. 2d 184, 110 S. Ct. 1750 (1990)).<sup>69</sup>

The Court in *Gore* agreed that “a reviewing court engaged in determining whether an award of punitive damages is excessive should ‘accord substantial deference’ to legislative judgments concerning appropriate sanctions for the conduct at issue.”<sup>70</sup> There is nothing in the *Gore* decision to suggest that the Court wished to or saw itself as substituting its own judgment for that of the legislature as to appropriate limits on a jury’s discretion to award damages. Rather, the Court was applying its judgment in the *absence* of the legislature’s judgment or any other limit on the jury’s discretion. The case in statutory damages could not be more different. In fact, the Court has already found itself comfortable with Congress’ selection of a range for statutory damages in an earlier version of the Copyright Act.<sup>71</sup> It bears noting again that the statutory range of \$250 minimum and \$5,000 maximum approved by the Court in *Woolworth* in 1952, when adjusted for inflation, equates to a range of roughly \$2,000 minimum and \$40,000 maximum in 2007 dollars.<sup>72</sup> Both of these figures exceed the actual present statutory amounts for ordinary infringements.

Finally, a defendant may argue that statutory damages as applied by a particular jury represent a grossly excessive punitive award. Historically, the Court has given great latitude to awards of statutory damages.<sup>73</sup> Further, this argument runs headlong into the Court’s post-*Gore* deference for jury decisions in copyright; “in cases where the amount of the damages was uncertain[,] their assessment was a matter so peculiarly within the province of

the jury that the Court should not alter it.”<sup>74</sup> In invoking this language with regard to statutory damages two years after its decision in *Gore*, the Court has already at least implied its view that statutory damages are not subject to the guideposts.

#### D. What Is the Result of an Application of the Guideposts to Statutory Damages?

Notwithstanding the above analysis, one might wonder what result would be generated by applying the guideposts to statutory damages.

##### 1. Degree of Reprehensibility

To the extent that statutory damages are in fact subjected to the guideposts, it seems more likely to occur in the context of enhanced statutory damages. As such, the reprehensibility of the act prong overlaps with the willful standard for the award of an enhanced level of statutory damages.<sup>75</sup> The Court in *Gore* held that conduct is reprehensible and justifies a penalty when it is intentional.<sup>76</sup> It also held that an increased award is appropriate where the conduct was repeated and at least suspected by the defendant to be a violation.<sup>77</sup> Given the widespread publicity surrounding copyright infringement on peer-to-peer systems and the recording industry’s concomitant litigation, where the defendant has distributed numerous copyrighted works on a peer-to-peer system, it would tax credulity to argue that this standard has not been met.

The Court has also held that “[e]vidence of actual harm to nonparties can help to show that the conduct that harmed the plaintiff also posed a substantial risk of harm to the general public, and so was particularly reprehensible.”<sup>78</sup> Again, where the defendant is part of the machinery of the distribution of billions of copyrighted works on a peer-to-peer system, that defendant is not only harming the specific copyright owners, but is undermining the incentives in the Copyright Act to create new works for the benefit of the public. For all these reasons, an enhanced award is supported.

##### 2. Ratio of Punitive Damages to Actual Harm

Application of this guidepost is problematic, at best. Indeed, the ratio of the harm suffered by the plaintiff to “punitive” damages borders on the farcical where the statute is specifically designed to relieve the plaintiff of having to prove actual harm. It is an analysis that is precluded by the very nature of statutory damages.

It is worth noting, nevertheless, that the current statutory framework appears calibrated to a 4:1 ratio. That is, statutory damages for routine infringements may receive an award of up to \$30,000. In the case of willful infringements, the court may raise that amount another \$120,000, for a total of \$150,000. That represents a 4:1 ratio, well under the Court’s 10:1 threshold.

### 3. Sanctions for Comparable Misconduct

Similarly, the difference between a given award and remedies available in similar cases is a pointless inquiry here. By definition, an award of statutory damages must be within the congressionally authorized range. It is a tautology to inquire whether an award within the range of statutory damages is consistent with legislative judgments concerning the appropriate sanction for the conduct at issue.

The Court will also consider the availability of criminal penalties as a sign of the seriousness of the government’s interest in the offense and judgment concerning appropriate sanctions.<sup>79</sup> Criminal penalties are available for copyright infringement<sup>80</sup> and carry a penalty of up to five years in prison and a fine of up to \$250,000 for a first offense involving the infringement of works that have a total value of more than \$2,500.<sup>81</sup> Considering only the fine, Congress has specifically enacted a penalty that can be as much as 100 times the actual damages caused by the first offense. Subsequent offenses are subject to up to 10 years in prison and a fine of up to \$500,000 (a ratio of up to 200:1).<sup>82</sup> All of these facts support an award of enhanced statutory damages.

Thus, it appears that application of the guideposts is awkward at best and, in any case, appears to favor upholding statutory damages award.

### Conclusion

Statutory damages are a time-honored and accepted method for assessing awards in copyright infringement litigation. Recent decisions regarding the Due Process Clause and punitive damages are not applicable to statutory damages and should not be shoehorned into this field. The courts should continue to defer to Congress’ historically careful judgment in this area.<sup>83</sup>

### Endnotes

1. 517 U.S. 559 (1996).
2. See Defendant Bertlesmann A.G., Bertlesmann, Inc., and Bemusic, Inc.’s Notice of Motion and Conditional Motion for Summary Judgment, *In re Napster, Inc. Copyright Litigation*, No. C-MDL-00-1369 MHP (N.D. Calif. July 21, 2006); Defendant James Michael Boggs’ Response in Opposition to Plaintiff’s Rule 12(b)(6) Motion to Dismiss Counterclaims, *Atlantic Recording Corp. v. Boggs*, C.A. No. 2:06-cv-00482 at 22 (S.D. Tex. April 26, 2007); Answer, Affirmative Defenses and Counterclaims, *Lava Records LLC, et al. v. Amurao*, No. 07 CV 321 (CLB)(S.D.N.Y. Feb. 12, 2007).
3. William S. Strauss, U.S. Copyright Office, *Studies on Copyright Law Revision Prepared for the Sen. Subcomm. on Patents, Trademarks, and Copyrights: The Damage Provisions of the Copyright Law (Study No. 22)* 1 (1956).
4. 1 Stat. 124-26 (1790).
5. See Copyright Act of 1802 (2 Stat. 171 (1802) (making designs, engravings, and prints eligible for copyright protection and providing for statutory damages of \$1 for every infringing print));

- Copyright Act of 1831 (4 Stat. 436 (1831) (making musical works eligible for copyright protection and providing for statutory damages of \$1 for every infringing sheet)); Copyright Act of 1856 (11 Stat. 138 (1856) (granting performance and publication rights in dramatic compositions and providing for statutory damages of not less than \$100 for the first unauthorized performance and \$50 for every subsequent unauthorized performance)); Copyright Act of 1870 (16 Stat. 198) (setting statutory damages for the infringement of paintings and statues at \$10 for each infringing copy)).
6. 28 Stat. 956 (1895).
  7. Strauss, *supra* note 3 at 2.
  8. *Arguments Before the Comms. on Patents of the Senate and House, Conjointly, on S. 6330 and H.R. 19853 to Amend and Consolidate the Acts Respecting Copyright*, 59th Cong., 142 (Dec. 7-8, 10-11, 1906) (statement of Ansley Wilcox, Esq., of Buffalo, N.Y.). See H.R. Rep. No. 60-2222, at 15 (1909).
  9. See *Arguments Before the Comms. on Patents of the Senate and House, Conjointly, on S. 6330 and H.R. 19853 to Amend and Consolidate the Acts Respecting Copyright*, 59th Cong., 123-24, 199 (June 6-9, 1906) (statement of Charles S. Burton, Esq. of Chicago, Ill.).
  10. See *Hearings Before the Comms. on Patents of the Senate and House on Pending Bills to Amend and Consolidate the Acts Respecting Copyright*, 60th Cong., 150-60 (Mar. 26-28, 1908); H.R. Rep. No. 60-2222, at 15 (1909).
  11. 90 Stat. 2541 (1976).
  12. See 17 U.S.C. § 504(c).
  13. S. Rep. 94-473, at 162-63 (1975). Innocent infringers are those who “sustain[] the burden of proving . . . that [they] were not aware and had no reason to believe that his or her acts constituted an infringement. . . .” 17 U.S.C. § 504(c)(2).
  14. *Id.*
  15. Register of Copyrights, 87th Cong., *Report on the General Revision of U.S. Copyright Law* 102-03 (Comm. Print 1961).
  16. *Id.* at 104-05.
  17. Register of Copyrights, 89th Cong., *Supplemental Report on the General Revision of U.S. Copyright Law* 135-37 (Comm. Print 1965).
  18. S. Rep. 94-473, at 143-45 (1975); H.R. Rep. 94-1476, at 161-63 (1975).
  19. 102 Stat. 2853, 2860 (1988).
  20. 113 Stat. 1774 (1999).
  21. 17 U.S.C. § 504(c) (2007).
  22. H.R. Rep. 106-216, at 3 (1999).
  23. *Id.*
  24. 517 U.S. 559 (1996).
  25. *Id.*
  26. *Id.* at 568, 574.
  27. *Id.* at 574.
  28. *Id.* at 575.
  29. *Id.* at 576.
  30. *Id.*
  31. *Id.* at 576-77 (citation omitted).
  32. *Id.* at 580 (citations omitted).
  33. *Id.* at 581, n.33 (citing 15 U.S.C. § 1117; 35 U.S.C. § 284).
  34. *Id.* at 582-83 (citation omitted).
  35. *Id.* at 582.
  36. *Id.*
  37. *Id.* at 583.
  38. *Id.* (citation omitted).
  39. 538 U.S. 408 (2003).
  40. *Id.* at 417 (citing *Gore* at 574).
  41. 166 L. Ed. 2d 940 (2007).
  42. *Id.* at 948 (citing *Gore* at 568).
  43. *Id.* (citations omitted).
  44. Blaine Evanson, “Due Process in Statutory Damages,” 3 *Geo. J.L. & Pub. Pol’y* 601, 603 (2005).
  45. Although the reduced award for innocent infringers may not be fully compensatory to the aggrieved copyright owner, it falls within the compensatory class as it by definition does not involve a finding of willfulness and does not include a correspondingly enhanced award. In essence, the compensatory class is defined here as every statutory damages award that is not enhanced.
  46. J. Cam Barker, “Grossly Excessive Penalties in the Battle Against Illegal File-Sharing: The Troubling Effects of Aggregating Minimum Statutory Damages for Copyright Infringement,” 83 *Tex. L. Rev.* 525 (2004); Defendant James Michael Boggs’ Response in Opposition to Plaintiff’s Rule 12(b)(6) Motion to Dismiss Counterclaims, *Atlantic Recording Corp. v. Boggs*, C.A. No. 2:06-cv-00482 at 22 (S.D. Tex., April 26, 2007).
  47. See *MGM v. Grokster*, 545 U.S. 913, 924-26 (2005).
  48. See *supra* note 16.
  49. See 17 U.S.C. § 505.
  50. See *supra* notes 9-11.
  51. The inflation calculator provided on the Web site of the Bureau of Labor Statistics ([www.bls.gov](http://www.bls.gov)) shows that \$250 in 1913 (the earliest date available) is worth \$5,250.43 today.
  52. See Barker, *supra* note 46, at 537; Defendant Bertlesmann A.G., Bertlesmann, Inc., and Bemusic, Inc.’s Notice of Motion and Conditional Motion for Summary Judgment, *In re Napster, Inc. Copyright Litigation*, No. C-MDL-00-1369 MHP (N.D. Calif. July 21, 2006).
  53. See *supra* notes 17-19.
  54. See *supra* note 24.
  55. *State Farm* at 416 (“punitive damages serve a broader function; they are aimed at deterrence and retribution.”) (citations omitted).
  56. See *supra* note 24 but see *On Davis v. The Gap, Inc.*, 246 F.3d 152, 172 (2d. Cir. 2001)(“The purpose of punitive damages—to punish and prevent malicious conduct—is generally achieved under the Copyright Act through the provisions of 17 U.S.C. § 504(c)(2). . . .”).
  57. See *supra* note 34.
  58. Agreement on Trade-Related Aspects of Intellectual Property Rights (1994) (hereinafter “TRIPS”), Article 45. Article 45 also permits the adoption of “pre-established” damages.
  59. *Id.* at Article 41.
  60. See Singapore-U.S. FTA, Art. 16.9.9; Morocco-U.S. FTA, Art. 15.11.7; Central America-U.S. FTA, Art. 15.11.8. It is worth noting that in light of these provisions, a ruling that statutory damages generally are unconstitutional, or even that only enhanced statutory damages are unconstitutional, would create serious doubts about whether the United States is meeting its international obligations. Failure to meet those obligations could subject the United States to trade sanctions under the enforcement provisions of the Free Trade Agreements.
  61. But see *In re Napster, Inc. Copyright Litigation*, No. C MDL-00-1369 MHP (N.D. Calif. June 1, 2005)(“Extending the reasoning of *Gore* and its progeny, a number of courts have recognized that an award of statutory damages may violate due process. . . .”) (citing *Parker v. Time Warner Entm’t Co.*, 331 F.3d 13, 22 (2d. Cir. 2003); *In re Trans Union Corp. Privacy Litig.*, 211 F.R.D. 328, 250-51 (N.D.Ill. 2002). Both *Parker* and *Trans Union* are distinguishable in that they

- involve certification of a class action suit, not the application of the *Gore* guideposts.
62. 491 F.3d 574 (6th Cir. 2007).
  63. *Id.* at 580.
  64. *Id.* at 586-87.
  65. *Id.* at 587 (quoting *St. Louis, I.M. & S. Ry. Co. v. Williams*, 251 U.S. 63, 66-67 (1919)).
  66. *See supra* note 41.
  67. *Lowry's Reports, Inc. v. Legg Mason, Inc.*, 302 F. Supp. 2d 455, 460 (D. Md. 2004) (holding that the *Gore* guideposts do not apply to statutory damages) (citing *Pacific Mut. Life Ins. Co. v. Haslip*, 499 U.S. 1, 20 (1991) (“As long as the discretion is exercised within reasonable limits, due process is satisfied”)).
  68. *See supra* Part I.
  69. *Eldred v. Reno*, 239 F.3d 372, 379-80 (D.C. Cir. 2001).
  70. *Gore* at 583 (citations omitted).
  71. “The necessary flexibility to do justice in the variety of situations which copyright cases present can be achieved only by the exercise of the wide judicial discretion within limited amounts conferred by this statute.” *Woolworth Co. v. Contemporary Arts, Inc.*, 344 U.S. 228, 232 (1952).
  72. [www.bls.gov](http://www.bls.gov).
  73. “Even for uninjurious and unprofitable invasions of copyright the court may, if it deems just, impose a liability within statutory limits to sanction and vindicate the statutory policy.” 344 U.S. at 233.
  74. *Feltner v. Columbia Pictures, Inc.*, 523 U.S. 340, 353 (1998) (citations omitted).
  75. “Here . . . ‘willfully’ means with knowledge that the defendant’s conduct constitutes copyright infringement.” 4 Nimmer & Nimmer 14.04[B][3].
  76. *See supra* note 31.
  77. *See supra* note 32.
  78. *Philip Morris* at 949.
  79. *See supra* note 38.
  80. 17 U.S.C. § 506.
  81. 18 U.S.C. § 2319(b).
  82. *Id.*
  83. Congress continues to reassess the appropriate application of statutory damages. Shortly before this issue went to print, H.R. 4279 was introduced. Section 104 of that bill would amend the statute to allow “either one or multiple awards of statutory damages with respect to infringement of a compilation.”

**The author is Assistant General Counsel at the U.S. Copyright Office. Thanks to David Carson, Tanya Sandros, Maria Pallante, Oliver Metzger, and Matthew Skelton for their invaluable thoughts and editorial assistance. Thanks also to Matthew Skelton and Mary Allen for extensive research assistance. The views expressed in this article are the views of the author and not necessarily the views of the Copyright Office or any other agency of the U.S. Government. Of course, any remaining errors are entirely those of the author.**



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# Scandalous Notes: A Musicologist Discusses New Developments in Music Technology That Challenge Copyright Attorneys and Expert Witnesses

By Judith Greenberg Finell

Since the millennium, many changes have occurred in the way that music is created, produced, performed, and circulated. These developments have been occurring at lightning speed, and do not appear to be slowing down. The results have challenged copyright attorneys, along with the musicologists who provide them with expert witness and consulting services.

Before 1980, there was a wide gulf among composers, performers, and technologists, with the exception of a relatively small number of experimental fringe musicians who had both electronic and musical expertise. Over time, these boundaries have blurred, and today many mainstream musicians have considerable expertise in electronics, technology, and recording engineering. Further, the advent of digital music and the rapid expansion of the Internet have given musicians unbridled access to the material of others and, consequently, the opportunity to incorporate this prior material into their own compositions—with or without permission to do so.

## New Music Technology Increases the Opportunities for Infringement

While there are still many composers who write with pencil and paper, collaborating in traditional ways with other musicians and lyricists, many genres of popular music, such as rap music, are now constructed as a collage blending pre-existing material with new original material. This change is due in part to the pervasive use of technology that can reproduce music data in exact copies. Music—from recording studio to mixing and editing to final medium (be it any variant of a CD, DVD, or a compressed audio format downloadable via the Internet)—is almost always now completely digital from start to finish. The convenience and ease with which such data can be copied and shared has opened new possibilities for collaboration, but has also increased the temptation to appropriate musical material in illegal ways.

Uncovering such misappropriation, and proving (or disproving) it, poses new forensic challenges for attorneys and musicologists. One brazen example is the Joyce Hatto CD hoax.<sup>1</sup> This is a case in which fraudulent recordings misattributed to the pianist Joyce Hatto were passed off by her record producer husband William Barrington-Coupe as having been performances of hers, when, in fact, they were not. Rather, these were performances by other musicians to whom no credit was given.

Such a hoax could not have existed—nor likely have been detected—were it not for the easy access to digital recordings, recording studio software, and the Internet. Modern software allowed Mr. Barrington-Coupe to alter and seamlessly modify other artists' recordings, and, consequently, to deceive the public by attributing them to Ms. Hatto. One of the techniques used, by Mr. Barrington-Coupe's own admission, was time-stretching (where a segment of audio can be digitally stretched or shrunk to fit a certain length of time, with the option of maintaining the same pitch).

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*"[T]he advent of digital music and the rapid expansion of the Internet have given musicians unbridled access to the material of others and, consequently, the opportunity to incorporate this prior material into their own compositions—with or without permission to do so."*

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## Composers' Expanded Toolboxes Demand New Forensic Techniques

Increasingly powerful tools are at the disposal of modern composers, and the process of composition has changed as a result. Today's computer with sequencer and DAW (digital audio workstation) software makes it easy to create works by inserting musical sounds and layers. The result is that any sound can now be captured, modified, and incorporated into any type of musical work. For example, the recorded sound of a gong can be transformed into an extended high-pitched squeak. This capability raises many new copyright and performing rights questions.

Synthesizer technology has evolved to the point that a symphony orchestra can be simulated with a very high level of realism.<sup>2</sup> This capability is likely to result in new legal issues as well, especially since music-interpretation data can now be copied just like any other form of data.

Digital processing has allowed for improvements in the "vocal elimination" technique (the deletion or removal of the vocal sounds from a recording). This ability can enable the user to disguise the misappropriation of an instrumental accompaniment section, for example,

by eliminating the more obviously recognizable vocalist and lyrics from an earlier recording. A hypothetical case might occur when two recordings—Song A (the earlier recording) and Song B (the later one)—bear a strong resemblance to one another. Song B sounds like it contains the exact recorded instrumental performance also heard on Song A, minus the vocalist and lyrics. However, Song B was recorded at a faster speed and at a slightly elevated key as compared with Song A. There are also numerous performance idiosyncrasies shared on both recordings that further arouse suspicion. For example, specific instrumental techniques including precise strumming and bowing methods appear to be identical between them. By using time-stretching techniques, the musicologist could substantiate the view that the creators of Song B have taken verbatim, then modified, Song A's performance.

Other forms of music technology have also begun to stimulate legal concerns as well. For example, electronic musical sounds have evolved greatly. While initially, composers utilizing electronic synthesizers attempted to replicate acoustic instruments (such as using synthesized violin sounds rather than "live" acoustic violins), the electronic musical palette has so grown as to embrace newly invented sounds that refer to nothing else in particular. These new sounds are sometimes so distinctive that their misappropriation can provide an important "musical fingerprint" in detecting whether one song was copied from another. In other cases, however, the new sounds are so modified as to render their original sources unrecognizable. In this circumstance, questions of ownership and originality emerge.

### **New Access Considerations Due to the Digital Revolution**

The musical developments have also had an impact on access issues. In essence, music has become borderless. Today, using the Internet, an unsigned band in a far corner of the world can circulate a song throughout the universe with the click of a mouse. This band can now upload its own songs on to Web sites such as MySpace.com, without the benefit of a record label with a traditional distribution arm. In turn, any amateur or professional musician with a computer can, then, capture and utilize the band's works—either with or without its permission—virtually anywhere in the world. Consequently, the ways in which access can be claimed and the burden to prove it have definitely changed.

### **Musicologists' Forensic Tools Adjust to the New Musical Reality**

Several cases have occurred when popular songs are found to contain misappropriated musical segments from obscure locations and unknown artists. I have seen

cases in which the resemblance is sometimes instantly recognizable. The similarity can be so obvious that it is as if the excerpt had been lifted from the pre-existing recording and dropped right into the second one unchanged. However, it can be difficult to verify objectively merely with human ears whether or not a segment of music is indeed a verbatim copy of another, rather than an independently reproduced performance. To resolve this problem, I would turn to spectrogram analysis.

A sound spectrogram is a visual representation of an acoustic sound signal. The visual result of a spectrogram is affected by many parameters; but in essence, the idea is to separate the given signal's component frequencies and amplitudes. The analysis is used in analyzing linguistics, voice prints, and, for example, identifying animals and insects by the sounds they make. By utilizing this method of analysis, it is possible to see identifying features of sound, including the strength of overtones and the rate of change in sound over time. This tool would enable the musicologist to surmise that the sound segment mentioned above had been copied and was not an independently reproduced performance.

### **Have Music Copyright Infringement Criteria Changed?**

These new developments in the way that music is constructed and circulated suggest that some of the traditional copyright infringement criteria might need to be adjusted at times in order to address the new compositional processes. This adjustment is already reflected in: 1) the way in which it is sometimes necessary to review music that sounds similar, 2) the tools used to detect some similarities and differences, 3) considerations as to access, and 4) the questions asked of the creators of the musical works at issue.

In the end, the same questions still do apply. For example, in a hypothetical case in which Song A was composed before Song B, which bears a resemblance to it, an attorney would still ask the musicologist such questions as:

1. Are Songs A and B substantially similar?
2. Are Songs A and B strikingly similar?
3. If either of the above is so, was the material that Songs A and B have in common original with Song A?
4. If not, what may have been the source for the material found in both Songs A and B?
5. If the songs are similar, is the material that they have in common essential to either or both? If so, what proportion of both songs does the similar material occupy?

Depending on the nature of the similarities that the musicologist hears (or does not hear), additional questions could be addressed to the creators of Songs A and/or B, such as:

1. Were digital samples used in creating either song?
2. What other forms of technology were used in composing and producing the work?
3. Was Song B commissioned by a client (such as an advertising agency or film studio) who provided Song A as a model of the music that was wanted (this model is referred to as a "temp track")?
4. Did the composer of Song B utilize any third-party source materials to produce the sounds on the recording, such as a music library of pre-recorded sounds or tracks of instrumental materials?
5. Did the composer of Song B collaborate on his work, and, if so, were any of the collaborators involved in the production and creation of Song A?

In summary, today's new musical landscape offers a bounty of limitless possibilities that enrich and enhance

the creative process. However, along with this expanded composer's palette, many new risks, vulnerabilities, and concerns confront copyright attorneys, clients, and the musicologists who consult with them.

### Endnotes

1. See Alan Riding, "Pianist's Widower Admits Fraud in Recordings Issued as His Wife's," *The New York Times*, February 27, 2007.
2. See Jacob Hale Russell and John Jurgensen, "Fugue for Man & Machine," *The Wall Street Journal Online*, May 5, 2007.

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# NBA v. Motorola: Current Implications for Real-Time Blogging and the Dissemination of Game-Related Information

By Anthony J. Dreyer and Curt R. Clausen

Over the past two decades, there has been an increasing tension between sports organizations' efforts to control and capitalize on the dissemination of game-related information and the media's efforts to report freely on that information. Most recently this issue surfaced when the National Collegiate Athletic Association ("NCAA") ejected a newspaper reporter from an NCAA regional championship baseball game for blogging real-time information about the game from the press box. The NCAA claimed that the blogger's real-time posting on the Internet of scores, statistics, and observations from the game fell under its exclusive broadcast rights granted to others, and was thus prohibited during the game. While no legal action has arisen from the NCAA blogging incident, it underscores an important legal challenge facing sports organizations in the digital era.

This article examines the NCAA blogging incident and discusses three cases involving sports organizations' abilities to control third parties' use of game-related information. The first of these cases, *NBA v. Motorola*, is in many ways the watershed case in defining where the sports leagues' rights end and the public domain begins.<sup>1</sup> In this case, the United States Court of Appeals for the Second Circuit ruled that game statistics gathered via publicly distributed broadcasts did not amount to misappropriation or violate the National Basketball Association's ("NBA" or the "League") broadcast rights. While the NBA was unsuccessful in asserting control over the dissemination of scores and statistics gathered through public broadcasts, four years later, in *NBA v. New York Times*, the League was successful in a dispute involving the *New York Times*' unauthorized sale of NBA game photographs.<sup>2</sup> The court's favorable ruling was based upon contractual restrictions on the NBA media credential, which limited the use of photographs taken at games to news coverage only. Along similar lines, a year later in *Morris v. PGA Tour*, a Florida federal district court upheld credential restrictions on the real-time dissemination of golf scores and statistics by credentialed media at PGA Tour events.<sup>3</sup>

These three cases suggest that sports entities can utilize contractually based credential restrictions to control the dissemination of information gathered at their sports venues, including information being distributed via Internet blogs. However, absent such restrictions, control over the dissemination of real-time information is limited, at best, once the underlying information enters the public domain.

## The University of Louisville Blogging Incident

The ability of sports organizations to restrict the flow of information from sporting events was recently put at issue when a reporter was ejected from a University of Louisville baseball game for posting game updates onto his blog. Brian Bennett, a *Louisville Courier-Journal* sports reporter, had been keeping a real-time blog about the University of Louisville baseball team's playoff games on the *Courier-Journal*'s Web site.<sup>4</sup> From the press box, he would post game updates on his blog with a short description approximately every ten minutes.<sup>5</sup> Here is an example of one such entry:

### Cards now up 7-1

U of L tacks on another with some small ball.

Rodriguez singled. Then went to second on a balk. Derrick Alfonso moved him to third with a sacrifice bunt, and Chris Cates hit a chopper to the drawn-in infield that allowed Rodriguez to score.

Tyler Blandford, OSU's fourth pitcher of the game, pitched the third.

*posted by Brian Bennett at 5:27 PM*<sup>6</sup>

Mr. Bennett had been posting such blogs from the Louisville games throughout the NCAA playoffs and had never encountered any opposition.<sup>7</sup> However, about an hour before the first game of the last day of the "Super Regionals" playoff, the University of Louisville sent a memo that was circulated through the press box. The memo stated as follows:

The College World Series Media Coordination staff along with the NCAA Broadcasting group needs to remind all media coordinators that any statistical or other live representation of the Super Regional games falls under the exclusive broadcasting and rights granted to the NCAA's official rights holders and therefore is not allowed by any other entity. Since blogs are considered a live representation of the game, any blog that has action photos or game reports, including play-by-play, scores or any in-game updates, is specifically prohibited. In essence, no blog entries are permitted between the first pitch and the final out of each game.<sup>8</sup>

According to Bennett, there was never any blogging restriction included in his press credentials that allowed him to gain access to the press box, and he never agreed to any such restriction.<sup>9</sup> After receiving this memo, Bennett checked with his editors and decided to continue blogging as originally planned.<sup>10</sup> During the bottom of the fifth inning of Louisville's game, Bennett was approached by officials, had his media credentials revoked, and was ordered to leave the stadium.<sup>11</sup>

The executive editor of the *Courier-Journal*, Bennie Ivory, expressed surprise at the fact that the NCAA was taking a stand against the blog. "This is part of the evolution of how we present the news to our readers," he explained. "It's what we did during the Orange Bowl. It's what we did during the NCAA basketball tournament. It's what we do."<sup>12</sup> However, whether or not the NCAA took a stand against this type of blogging in the past, its 2006-07 NCAA Championships media credential policy did place explicit limits on blogging.<sup>13</sup> The conditions on use of credentials read as follows, in relevant part:

All media entities (including message boards and blogs) shall not publicly display any Representations, including but not limited to audio descriptions, written descriptions, game logs, or play-by-play summaries of in-game action until after the completion of that competition or corresponding session that is relative to a particular championship. In-game updates on score and time remaining in competition may be publicly displayed by any media entity whether credentialed or not.<sup>14</sup>

According to Bob Williams, NCAA managing director of public and media relations, the information released to the media after the eviction of Brian Bennett that indicated an absolute ban on blogging was incorrect; however, Williams reiterated that Brian Bennett's blogging was still in violation of the NCAA policy because it contained play-by-play details.<sup>15</sup>

Following the incident, legal counsel for the paper had indicated that it was investigating whether there was enough official state action to pursue a claim on First Amendment grounds, although in *NCAA v. Tarkanian*, the U.S. Supreme Court held that the NCAA and a member public institution that carried out its directives were not state actors subject to constitutional due process restraints.<sup>16</sup>

The ejection of Brian Bennett from a college baseball game for blogging implies that the NCAA, and perhaps other sports leagues, have begun to view bloggers as competition with licensed content providers. With the emergence of this new technology and potential revenue stream, sports organizations, leagues, and governing bodies may look to established precedent to define the

contours of their abilities to control the up-to-the-minute information that is being posted online regarding their sporting events.

### ***NBA v. Motorola***

The controversy between the NBA and Motorola arose out of technological advances in much the same way that the proliferation of Internet blogs led to the controversy between a reporter and the NCAA. In 1995, Motorola began marketing a handheld pager called SportsTrax, which would display up-to-the minute information about NBA games in progress.<sup>17</sup> SportsTrax displayed the score, team names, possessions, number of fouls for each team, the quarter, and how much time was left in the quarter.<sup>18</sup> The SportsTrax user received updated information approximately every two to three minutes, with a lag time of approximately two or three minutes between when the events occurred in the game itself and when the information was displayed on the pager.<sup>19</sup> To transmit this information, Motorola worked in conjunction with Sports Team Analysis and Tracking Systems, Inc. ("STATS"), which provided the statistical information on the NBA games in progress that was then transmitted to the SportsTrax pagers.<sup>20</sup> STATS did not collect this information by attending the games, but instead followed the game coverage provided on television or radio.<sup>21</sup>

The NBA argued that Motorola was infringing upon its broadcast copyrights and unlawfully misappropriating the NBA's property rights in the games.<sup>22</sup> The district court found in favor of the NBA based on the misappropriation claim, and issued an injunction prohibiting Motorola and STATS from transmitting data from NBA games to the pagers.<sup>23</sup>

However, on appeal, the Second Circuit vacated the injunction and dismissed the NBA's claims.<sup>24</sup> The court identified two main issues in the case that created the "crux of the dispute": 1) whether a state law "hot-news" misappropriation claim survives preemption by the amended federal Copyright Act, and 2) whether the NBA's claim fits within these surviving "hot-news" claims.<sup>25</sup> Finally the court also addressed whether Motorola had violated the Copyright Act by copying the information from copyrighted television and radio broadcasts.

### **"Hot-News" Misappropriation Claims and Copyright Preemption**

The NBA's state common law claims of misappropriation of "hot-news" were based on *International News Service v. Associated Press*.<sup>26</sup> The International News Service ("INS") and the Associated Press ("AP") were two competing wire services, between which a dispute arose over INS's copying of factual stories from AP bulletins.<sup>27</sup> The Supreme Court held that INS had misappropriated AP's property due to the value of quick information (so-called "hot news") and the cost AP had expended in collecting the stories.<sup>28</sup>

The issue in *NBA v. Motorola* was whether this INS-type “hot-news” claim survived preemption by the federal Copyright Act, as amended in 1976. The Copyright Act reads in part, “rights that are equivalent to any of the exclusive rights within the general scope of copyright . . . and come within the subject matter of copyright . . . are governed exclusively by this title.”<sup>29</sup> To survive preemption, the INS-type “hot-news” claim must either be outside the “subject matter of copyright” or exceed the “general scope of copyright” because the claim requires an “extra-element” beyond the elements of a copyright claim.<sup>30</sup>

The Second Circuit first held that since the challenged activity related in part to the copyrighted broadcasts of the games, the subject matter requirement for preemption had been met.<sup>31</sup> The court rejected the District Court’s distinction between the copyrightable descriptions provided from the broadcasts and the underlying factual information of the game.<sup>32</sup> Instead, the court pointed out that while only the broadcasts themselves are copyrightable, not the underlying games, the Copyright Act should not be read to distinguish between the two when the misappropriation claim is based on copying game facts from the copyrightable work.<sup>33</sup>

As for the “general scope” requirement, the court found that only one aspect of New York misappropriation law, namely the INS-type “hot-news” claim, survived preemption.<sup>34</sup> It found that a form of a “hot-news” misappropriation claim involved extra elements and was therefore not the equivalent of exclusive rights under a copyright.<sup>35</sup> As the extra elements of an INS “hot-news” claim prevented preemption of the state law, the next issue was whether the NBA’s claim satisfied all five elements of a “hot-news” misappropriation claim.

### The NBA’s “Hot-News” Claim

The court addressed whether the NBA’s property had been misappropriated within the “hot-news” framework when scores and information copied from television and radio broadcasts of NBA games in progress where transmitted by SportsTrax.<sup>36</sup> The court identified the elements of a “hot-news” claim as:

- (i) a plaintiff generates or gathers information at a cost; (ii) the information is time-sensitive; (iii) a defendant’s use of the information constitutes free-riding on the plaintiff’s efforts; (iv) the defendant is in direct competition with a product or service offered by the plaintiffs; and (v) the ability of other parties to free-ride on the efforts of the plaintiff or others would so reduce the incentive to produce the product or service that its existence or quality would be substantially threatened.<sup>37</sup>

The court found that the SportsTrax pager did not satisfy all the elements of a “hot-news” claim.<sup>38</sup> Specifically, the court concluded that there was no danger that SportsTrax was free-riding on a product in direct competition with the NBA.<sup>39</sup> Certainly, Motorola was taking advantage of some of the NBA’s efforts, namely holding the events and broadcasting them.<sup>40</sup> However, the SportsTrax pager was a separate type of product that was not competing with those products, because there was no evidence that the pager was an equivalent substitute to watching the game in person or on television.<sup>41</sup> Thus, Motorola’s use of information taken from the broadcast of games did not damage the value of the game broadcast. Although the SportsTrax pager was in competition with the NBA’s play-by-play product, “Gamestats,”<sup>42</sup> the court concluded that SportsTrax was not free-riding on that product, because Motorola and STATS expended their own resources to collect and transmit the purely factual information about the game by watching the broadcasts themselves, not by copying information provided by Gamestats.<sup>43</sup> Therefore it was not any cheaper for STATS to provide its service for SportsTrax than it was for the NBA to provide the same service for Gamestats, and there was no danger of reduced incentives driving Gamestats out of business.<sup>44</sup>

Since Motorola’s actions did not constitute misappropriation of “hot news,” the court concluded that the NBA’s claim of misappropriation under New York law was preempted by the Copyright Act.

### Copyright Act

After ruling that the NBA’s misappropriation claim was preempted by the federal Copyright Act, the court addressed the NBA’s claim under copyright law. Congress has extended copyright protection to simultaneously recorded broadcasts of sports events, but the Court concluded that this protection does not extend to the underlying games themselves.<sup>45</sup> Additionally, the Supreme Court has ruled that factual information is not copyrightable.<sup>46</sup> Even though STATS obtained information from the copyrighted broadcasts of the NBA games, the court concluded that only factual information was copied and not the expression or description of the game that constitutes the copyrightable broadcast.<sup>47</sup> Therefore the court held that Motorola and STATS did not infringe upon the NBA’s copyright in the broadcast of games, and that the games themselves were not afforded any copyright protection in the first place.<sup>48</sup>

### NBA v. New York Times

Four years later, the NBA brought suit to enjoin the *New York Times* (“Times”) from selling photographs taken by Times’ photographers at NBA games.<sup>49</sup> The Times had sent the photographers to attend NBA basketball games

to obtain photographs for use with news accounts of those games.<sup>50</sup> These photographers gained access to NBA arenas by procuring media credentials from the League, which conditioned access to the arena on the agreement that any films or photographs would be used only for “news coverage of the game.”<sup>51</sup> The *Times* nevertheless sold to consumers photographs of NBA game action taken by its photographers at the arenas.<sup>52</sup>

The NBA alleged that the *Times*’ conduct breached its contractual agreement as set forth in the media credential, that the photographs would be used for news coverage only.<sup>53</sup> The NBA media credential expressly limited access by a series of terms and conditions prominently displayed on the back of the credential, and one such condition read as follows:

The use of any *photograph*, film, tape or drawing of the game, player interviews or other arena activities taken or made by the accredited organization or the individual for whom this credential has been issued *shall be limited to news coverage of the game by the organization to which this credential is issued*, unless expressly authorized in writing by the NBA.<sup>54</sup>

The credential further stated that accepting the credential constitutes an agreement to abide by the terms and conditions.<sup>55</sup>

Unlike *Motorola*, which involved information in the public domain, the *New York Times* case involved the dissemination of information gathered within the NBA’s arenas. The NBA arenas are privately owned, and access to view an NBA game is limited to 1) those holding tickets, 2) individuals employed by or affiliated with the teams, the arena, vendors, or the NBA, and 3) members of the media to which press credentials are issued.<sup>56</sup> The League argued that through these credentials, members of the media are contracting with the NBA for a limited and revocable license to access the arena to provide media coverage of a particular game.<sup>57</sup>

The *Times* claimed that copyright law preempted the NBA’s ability to control the use of the *Times*’ copyrighted photographs taken at games, and that the contractual terms of the media credential violated the statute of frauds.<sup>58</sup> In denying the *Times* motion to dismiss, the court indicated that it viewed the issue as one of contract and not copyright, and that the *Times*’ numerous written requests to obtain media credentials satisfied the statute of frauds.<sup>59</sup> While the case did not address the real-time transmission of game statistics, it was an important victory for sports organizations seeking contractual control over the dissemination of information gathered within its venues.

## **Morris v. PGA Tour**

A year after the *NBA v. New York Times* case, the PGA Tour, Inc. (“PGA”) successfully defended an antitrust suit challenging the PGA’s media credential restrictions on dissemination of real-time golf statistics.<sup>60</sup> Morris Communications (“Morris”), a southern-based media company that regularly covered golf in its own newspapers and Web sites, alleged that the PGA violated section 2 of the Sherman Act by controlling the use of real-time golf scores from PGA events.<sup>61</sup>

The PGA had developed a Real-Time Scoring System (“RTSS”) that allowed it to monitor the play and scores around the entire golf course. To function, this system required dozens of volunteers who relayed scores from each hole with hand-held devices to PGA computer technicians who posted the scores on “pgatour.com,” and transmitted the scores to an on-site media center.<sup>62</sup> The scores were transmitted at almost the same time the shots occurred on the golf course.<sup>63</sup> Since the PGA did not allow spectators to use hand-held devices or cell phones, replicating the PGA’s RTSS system and compiling coursewide scores without the RTSS would be virtually impossible.<sup>64</sup>

The RTSS was (and remains) the only source of complete scores available during a PGA competition, and the on-site media center is the only location where all the scores are available.<sup>65</sup> Access to the media center is limited to those who have obtained free press credentials from the PGA, which requires agreeing to certain terms and conditions.<sup>66</sup> Beginning in January of 2000, those terms and conditions included the PGA’s On-Line Service Regulations (“OLSR”), which include the following restrictions: 1) media organizations must delay publication of scores on their Web site until a) 30 minutes after the actual shot occurred; or b) the information has become part of the public domain by being posted on pgatour.com; and 2) credentialed media organizations are prohibited from selling or syndicating to third parties the scoring information they receive in the media center, unless they obtain permission to do so from the PGA.<sup>67</sup> The credentials also made clear that violations could result in the offending party having its media credentials revoked.<sup>68</sup>

After the OLSR was established, Morris and the PGA agreed that the restriction on selling real-time golf scores to third parties could be waived on condition that Morris collected the scores from pgatour.com and not the on-site media center.<sup>69</sup> Morris then tried to gather scoring information in this fashion, but claimed it unworkable.<sup>70</sup> He then went back to the PGA to request that he be allowed to syndicate real-time scores from the on-site media center regardless of the OLSR, but the PGA Tour refused.<sup>71</sup> Morris then sought to enjoin the PGA from enforcing the OLSR, claiming that it gave the PGA an unfair advantage

in the syndication of real-time golf scores in violation of antitrust law.<sup>72</sup> The PGA countered that the OLSR was a reasonable means to “preserve the value of its investment” and “promote the competitiveness of its own website.”<sup>73</sup>

The district court first denied Morris’s motion for a preliminary injunction, and ultimately granted the PGA’s motion for summary judgment on all counts.<sup>74</sup> Morris then appealed to the Eleventh Circuit, which upheld the district court’s decision. The Eleventh Circuit viewed the dispute as a “straight-forward antitrust case,” not a copyright case.<sup>75</sup>

The district court found (and the Eleventh Circuit affirmed) that even if the PGA possessed monopoly power in the market for real-time golf scores, the antitrust claims could not prevail because the PGA had asserted a valid business justification for its actions (making its actions pro-competitive).<sup>76</sup> In reaching this conclusion, the court addressed 1) the use of contract law to restrict the use of real-time golf scores applying *ProCD v. Zeidenberg* and 2) the distinctions between the *PGA* case and *NBA v. Motorola*.

### Access Restrictions

The district court addressed whether the PGA may legally condition access to its tournaments on media credentials requiring holders to agree not to syndicate the real-time golf scores they are able to obtain from the on-site media center.<sup>77</sup> The court held that since golf tournaments occur on private property to which the general public does not have unfettered access, the PGA can place restrictions upon those who enter the private property.<sup>78</sup> Additionally, the court concluded that golf scores are not in the public domain when relayed to the on-site media center, and do not enter the public domain until they are distributed outside the venue via *pgatour.com* or other means.<sup>79</sup>

The district court pointed to the seminal intellectual property case, *ProCD v. Zeidenberg*, to show that courts have recognized the ability of compilers of information to limit the use and dissemination of that information through contract.<sup>80</sup> *ProCD* had produced a software program containing massive amounts of telephone directory information, and Zeidenberg bought the program and resold the information in violation of the license that came with it.<sup>81</sup> The software came packaged with a license agreement that clearly stated that use of the program was limited to non-commercial purposes. The Seventh Circuit held that since *ProCD* provided the information to Zeidenberg, it can limit the use of that information through a license under contract law.<sup>82</sup>

In *Morris v. PGA Tour*, the district court analogized to *ProCD* to conclude that when the PGA publishes golf scores to the media center, the use of those scores can be limited under contract law—specifically, through the

media credentials granted to members of the media.<sup>83</sup> However, if Morris or other members of the media instead collected the information from sources in the public domain, such as *pgatour.com*, that information would be outside the scope of the contract. Having established the PGA’s right to include restrictions with the access it provides to the on-site media center, the court then considered whether the PGA had provided a valid business justification for the restrictions to show they were not anticompetitive in nature.

### Valid Business Justification

A claim of unlawful monopoly power requires anti-competitive conduct that has no legitimate business purpose.<sup>84</sup> If a defendant meets its burden of showing a valid business justification, the burden shifts to the plaintiff to show that the justification is pretextual.<sup>85</sup> The PGA argued that it has a right to condition access to its private events to protect its property rights.<sup>86</sup> Relying on *NBA v. Motorola*, Morris argued that the PGA could not have a valid business justification because it does not have any rights on the real-time golf scores which Morris claimed were factual information existing within the public domain.<sup>87</sup> The district court rejected Morris’s analogy to *NBA v. Motorola*, and the Eleventh Circuit ultimately held that the prevention of free-riding on the PGA’s RTSS technology is a valid business justification.<sup>88</sup> As in *NBA v. Motorola*, the court considered the threat of free-rider damage to one party’s product, but in *Morris*, the court found that there *was* a threat of free-rider damage, whereas the *Motorola* court had found none.<sup>89</sup> The court concluded that Morris sought to capitalize on the PGA’s costly data-collection system, and had no ability to collect the data on its own.<sup>90</sup> Additionally, while any member could have gathered and syndicated factual information from NBA broadcasts the way *Motorola* and *STATS* did, the information Morris used was available only in the private, on-site media center and was limited to those with media credentials.<sup>91</sup> Since Morris posed a legitimate “free-rider” threat in a way that *Motorola* and *STATS* did not, the PGA Tour had a valid business justification in limiting the use of information obtained from their private, on-site media center.<sup>92</sup>

### Application Today

Although *NBA v. Motorola* was decided well before the proliferation of blogs, at a time when pagers were the “new technology,” it is applicable to emerging technology that disseminates information. Whether it is through computers, cell phones or BlackBerrys, *NBA v. Motorola* permits the transmission of factual updates during games if the information is collected from a television or radio broadcast (absent any contractual restrictions). As Bennett griped after he was ejected from the University of Louisville game for blogging, “someone watching ESPN across the street could have blogged every single pitch without a problem.”<sup>93</sup> Sports leagues thus have had to look to other

ways to control the use of real-time information and other intellectual property derived from their events.

*NBA v. New York Times* and *Morris v. PGA Tour* provide sports leagues with important legal tools for controlling the dissemination of game information: contractual limitations on use of that information as a condition of access. Through the use of ticket-back restrictions and conditions for media credentials, sports leagues can limit the use of information by those in attendance at the event.<sup>94</sup> This is precisely what the NCAA used to prevent Brian Bennett from blogging game updates from the University of Louisville playoff baseball games; the NCAA simply revoked his press credentials that provided him access to the game in the first place.<sup>95</sup> The actions of the NCAA would arguably be supported under *Morris v. PGA Tour*.<sup>96</sup> Regardless, the utility of the *Times* and *PGA Tour* holding may be limited to those who are actually admitted to the arena for the athletic event.

## Endnotes

1. *NBA v. Motorola, Inc.*, 105 F.3d 841 (2d Cir. 1997).
2. Transcript of Record, *NBA v. New York Times Co.*, No. 602858-2000 (Sup. Ct., N.Y. County Feb. 21, 2001).
3. *Morris Commc'ns Corp. v. PGA Tour, Inc.*, 364 F.3d 1288 (11th Cir. 2004) [hereinafter *PGA Tour III*].
4. Brian Bennett—U of L Sports, <http://www.courier-journal.com/blogs/bennett/blog.html>.
5. Rick Bozich, *Courier-Journal Reporter Ejected from U of L Game*, The Courier-Journal (Louisville, KY), June 11, 2007, at 1C.
6. *Cards now up 7-1*, [http://www.courier-journal.com/blogs/bennett/2007\\_06\\_01\\_archive.html](http://www.courier-journal.com/blogs/bennett/2007_06_01_archive.html) (June 10, 2007, 5:27 PM).
7. Bozich, *supra* note 5.
8. *Ejected and Dejected*, [http://www.courier-journal.com/blogs/bennett/2007\\_06\\_01\\_archive.html](http://www.courier-journal.com/blogs/bennett/2007_06_01_archive.html) (June 10, 2007, 8:14 PM).
9. *Id.*
10. Bozich, *supra* note 5.
11. *Id.*
12. *Newspaper blogger ejected from Louisville NCAA game*, The Associated Press, June 11, 2007, available at <http://sports.espn.go.com/ncaa/news/story?id=2901003>.
13. NCAA, 2006-07 NCAA Championships Media Coordination Handbook, Appendix C, available at [http://www.ncaa.org/library/handbooks/general/2006-07/2006-07\\_media\\_handbook.pdf](http://www.ncaa.org/library/handbooks/general/2006-07/2006-07_media_handbook.pdf).
14. *Id.*
15. Andrew Wolfson, *NCAA clarifies blogging policy*, The Courier-Journal (Louisville, KY), June 21, 2007, at 1C.
16. Joe LaPointe, *Blogger's Ejection May Mean Suit for N.C.A.A.*, The New York Times, June 14, 2007, at D5; see also *NCAA v. Tarkanian*, 488 U.S. 179 (1988).
17. *NBA v. Motorola, Inc.*, 105 F.3d 841, 843 (2d Cir. 1997).
18. *Id.* at 844.
19. *Id.*
20. *Id.* at 843.
21. *Id.* at 844.
22. *Id.*
23. *Id.* at 843. It should also be noted that there was a STATS Web site that also provided this information; however, the courts treat the legal issues surrounding the pager and the Web site as identical.
24. *Id.* at 855.
25. *Id.* at 843.
26. *Int'l News Serv. v. AP*, 248 U.S. 215 (1918). While this precedent was originally a federal common law claim, the federal common law has since been eliminated by *Erie R.R. Co. v. Tompkins*, 304 U.S. 64 (1938); therefore, only certain individual states have recognized the general tort of misappropriation as a matter of their state law, and this discussion of misappropriation is only applicable in those states.
27. *Id.* at 231.
28. *Id.* at 242.
29. 17 U.S.C. § 301.
30. See *Motorola*, 105 F.3d at 851.
31. *Id.* at 848.
32. *Id.*
33. *Id.* at 848-49.
34. *Id.* at 851.
35. *Id.* at 850. Specifically, the extra elements that are outside the scope of copyright law and allow such a claim to survive preemption are as follows: (i) the time-sensitive value of factual information, (ii) the free-riding by a defendant, and (iii) the threat to the very existence of the product or service provided by the plaintiff.
36. *Id.* at 847-55.
37. *Id.* at 845.
38. *Id.*
39. *Id.* at 854.
40. *Id.* at 853.
41. *Id.* at 853-54.
42. *Id.*
43. *Id.*
44. *Id.* at 854.
45. See 17 U.S.C. § 101; *Motorola*, 105 F.3d at 845.
46. See *Feist Publ'ns, Inc. v. Rural Tel. Serv. Co.*, 499 U.S. 340, 350 (1991).
47. *Motorola*, 105 F.3d at 847.
48. *Id.*
49. Complaint, *NBA v. New York Times Co.*, No. 602858-2000, at 1-4 (Sup. Ct., N.Y. County July 7, 2000).
50. *Id.* at 2.
51. *Id.*
52. *Id.* at 3.
53. *Id.* at 1.
54. *Id.* at 15 (emphasis added).
55. *Id.* at 16.
56. Complaint, *NBA v. New York Times*, at 10.
57. *Id.* at 12.
58. Defs.' Mem. of Law in Supp. of Mot. to Dismiss, *NBA v. New York Times*, No. 602858-2000, at 6 (Sup. Ct., N.Y. County Sept. 15, 2000).
59. Transcript of Record, *NBA v. New York Times Co.*, No. 602858-2000, at 5 (Sup. Ct., N.Y. County Feb. 21, 2001).
60. *PGA Tour III*, 364 F.3d 1288 (11th Cir. 2004).
61. *Id.* at 1290.
62. *Id.* at 1290-91.

63. *Id.* at 1291.
64. *Id.*
65. *Id.* In addition to the on-site media center, various electronic leaderboards are located throughout the golf course; however, these usually show only the scores of the top 10 or 15 players.
66. *Id.*
67. *Id.*
68. *Morris Commc'ns Corp. v. PGA Tour, Inc.*, 117 F. Supp. 2d 1322, 1325 (M.D. Fla. 2000) [hereinafter *PGA Tour I*].
69. *Id.*
70. *Id.*
71. *Id.* at 1326.
72. *Id.*; *PGA Tour III*, 364 F.3d at 1291-92.
73. *PGA Tour III*, 364 F.3d at 1296.
74. See *PGA Tour I*, 117 F. Supp. 2d 1322; *Morris Commc'ns Corp. v. PGA Tour, Inc.*, 235 F. Supp. 2d 1269 (M.D. Fla. 2002) [hereinafter *PGA Tour II*].
75. *PGA Tour III*, 364 F.3d at 1292-93.
76. *Id.* at 1295.
77. *PGA Tour II*, 235 F. Supp. 2d at 1272.
78. *Id.* at 1281.
79. *Id.*
80. *ProCD, Inc. v. Zeidenberg*, 86 F.3d 1447, 1451 (7th Cir. 1996).
81. *Id.* at 1449-50.
82. *Id.*; *PGA Tour II*, 235 F. Supp. 2d at 1280 n.20.
83. *PGA Tour II*, 235 F. Supp. 2d at 1279.
84. *PGA Tour III*, 364 F.3d at 1295.
85. *Id.*
86. *PGA Tour I*, 117 F. Supp. 2d at 1327.
87. *Id.* at 1328.
88. *PGA Tour III*, 364 F.3d at 1298.
89. *PGA Tour II*, 235 F. Supp. 2d at 1279.
90. *PGA Tour I*, 117 F. Supp. 2d at 1328.
91. *Id.* at 1329.
92. *Id.* at 1328-1329; *PGA Tour II*, 235 F. Supp. 2d at 1279-80.
93. See *supra* note 8.
94. *PGA Tour II*, 235 F. Supp. 2d at 1281.
95. Bozich, *supra* note 5.
96. See *supra* note 83.

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# Virtual Worlds, Digital Economies and Synthetic Crimes

By Sean F. Kane

## The Virtual World

Today's virtual worlds—sometimes also called digital or synthetic—evolved from text-based role-playing games like *Dungeons and Dragons*. The predecessors of the “Massively Multiplayer Online Role-Playing Games” (“MMOs”) of today began for the most part in the late 1970s and early 1980s, when various individuals, like Richard A. Bartle, co-author of MUD (the first multi-user dungeon), engaged in online role-playing game behavior. The online text-based commands and prompts allowed the players to act out various fantasies without the close proximity requirement which was inherent in the earlier written and oral role-playing gaming forms. As the online technology grew, so did the nature and complexity of the interactive games, including the addition of videogame graphics to the text-based game elements. In the 1990s the current state of online MMOs began offering a real-time socially interactive component that was not available on traditional offline console gaming. While the physical space and landscape is simulated in the virtual environment of today, the social interactions are for the most part real, since virtual characters, or “Avatars” in the digital world, are generally controlled and operated by a real person and not just by strict computer code. While these games are currently used mostly as an avenue for play and social interaction, if the proliferation of online entrepreneurs and real world businesses opening virtual world counterparts continues, the games will likely be more focused on commerce, research and work or work-related activities.

The original virtual worlds were built by private gaming companies for their subscribers and were fully controlled by the designers (the so-called “game gods”)<sup>1</sup> and their all-encompassing End-User Licensing Agreements (“EULAs”). These agreements detailed the rights and obligations to which the players were subject if they wished to play in a particular virtual world. As discussed below, as new MMOs emerge, some of these licensing agreements are becoming less encompassing and the individual players are gaining more rights that will lead to some very interesting Intellectual Property (“IP”) issues.

In the last few years, MMOs have exploded in user-ship with some reports stating that 100 million people worldwide are logging on to play in one of the various digital worlds.<sup>2</sup> Examples of some of these worlds include *The Sims*, *Second Life*, *City of Heroes*, *There.com*, *World of*

*Warcraft*, and *Everquest*. These and other digital worlds can run the gamut from pseudo-Tolkein, medieval-Arthurian, or sex fetish to more realistic depictions of the modern everyday experience. What they all have in common is that they were designed and programmed to promote social interaction among various players. The application and use of real world physical laws by game designers to create a three-dimensional landscape which persists and develops whether or not any particular gamer is playing reinforces the sense that the virtual world is a dynamic

real place. A vast majority of the players spend a considerable amount of time engaged in game play. In fact, some statistics state that between 20 and 30 million regular participants in the virtual world are so involved in game play that they spend more time in the digital society than they do at their job or engaged in other real world activities.<sup>3</sup> A South Korean man, who quit his job to have more time to play games, actually died on August 6, 2005 of heart failure due to exhaustion after playing an online battle simulation game for 50 hours, stopping only for short respites to use the bathroom and take brief naps.<sup>4</sup> U.S. citizens make up about half of the subscribers in the

virtual worlds, with Asian countries accounting for a majority of the remainder. In fact, differing reports claim that from 10 to 40 percent of the South Korean population plays an online game with some frequency.<sup>5</sup> The gamers work, play and interact with other individuals from around the world without ever needing to leave the location of their computers. It is likely that the type of information discussed above was what led the Hon. Richard Posner to recently comment that legal scholars would do well to study the issues surrounding videogames. Moreover, in December 2006, Judge Posner gave a talk via an Avatar (as seen in photo above) in the game *Second Life*.<sup>6</sup>

## Virtual Economy

The majority of online games do not have a distinct win or lose scenario. Instead, they are designed to allow for gamers to build up their Avatars in the virtual society by earning virtual currency and developing skills, so-called “leveling up,” that make each character more powerful. Property, both real and personal, can be purchased or created in the virtual world and used by the Avatars. As such, the virtual world society works much like that of a real world society. However, since certain gamers do not wish to invest the time and effort necessary to create a character and build up the level of wealth and status that



the game makes available after many hundreds of hours of play, a secondary market has arisen to cater to these individuals. Many gamers have begun to sell their digital goods, property or Avatars for real world money on IGE, eBay® and other similar e-commerce Web sites. In certain cases these items have sold for significant sums, as demonstrated by a virtual island that sold in *Project Entropia* for \$30,000,<sup>7</sup> a virtual representation of Amsterdam in the game *Second Life* that sold for \$50,000<sup>8</sup> and a virtual space station that also sold in *Project Entropia* for \$100,000.<sup>9</sup> Some research has stated that in the last year alone approximately one billion dollars traded hands as part of this secondary market.<sup>10</sup> Moreover, the amount of IP value that exists within these virtual worlds that has not been offered for sale is really quite vast and is only continuing to grow. For those who dispute the value of online digital property, consider that in reality most players' wealth is not in the physical form of a pile of hard currency but in digital form existing within the servers of a bank, brokerage house or other financial institution. With this in mind, the leap to virtual wealth is not a difficult one to make.

A few years ago the BBC published an article under the headline "Virtual Kingdom Richer than Bulgaria."<sup>11</sup> The basis for this article was that the per capita gross national product of Avatars within a realm in the game *Everquest* was higher than the average income of a citizen in certain Eastern European countries. Virtual entrepreneurs have noted this and attempted to cash in on it in various ways, including setting up digital sweatshops, where Third World laborers play online games around the clock obtaining and creating virtual Avatars, properties and goods that can then be sold for real world cash. The legality of such action is being raised in the recent United States District Court for the Southern District of Florida putative class action *Antonio Hernandez, Individually and on behalf of all others similarly situated v. Internet Gaming Entertainment and IGE U.S. LLC*.<sup>12</sup> The argument being raised is that IGE and other gold farmers act against the terms and conditions specified in the EULA and Terms of Use from the game *World of Warcraft*, which specify that the user may not sell items for real money outside of the virtual world. The plaintiff claims that IGE has sold virtual gold for millions of dollars, and that the amount of gold on sale is such that it creates a tangible economic damage to so-called "honest" players because it devalues their currency and their own efforts, it reduces the amount of virtual goods available to them, and it also places their characters at a disadvantage because they are not willing to purchase powerful items through the farming system.

Other individuals and entities have created what some may consider more respectable virtual businesses offering products or services to the digital community in exchange for payment in digital currency. Some examples of the most popular and successful businesses are Avatar clothing designers and Avatar entertainment complexes

offering anything from games of chance, virtual skydiving to virtual sex. One such digital clothing designer was even asked to present her designs at an Italian fashion show. The show's organizer was subsequently contacted by the designer and informed that her attendance would not be possible since her designs were merely for virtual clothes. From these humble origins, virtual world business has blossomed to include the virtual world presence of such blue chip companies as IBM,<sup>13</sup> General Motors,<sup>14</sup> Toyota,<sup>15</sup> CBS,<sup>16</sup> Dell,<sup>17</sup> Cisco Systems,<sup>18</sup> and Sun Microsystems.<sup>19</sup> Moreover, American Apparel,<sup>20</sup> Reebok,<sup>21</sup> and Starwood Hotels<sup>22</sup> are offering their products and services for sale to the virtual public. These virtual transactions are being covered by the Reuters Group as part of its virtual world news bureau.<sup>23</sup>

As already stated, some individuals do not play games for their virtual opportunities, but as a way to make money in the real world. Individuals and virtual businesses in the past were able to convert their digital earning into real cash through Web sites like [www.GamingOpenMarket.com](http://www.GamingOpenMarket.com), which allowed virtual currency arbitrage trading, converting digital currency to United States dollars at the prevailing rate in the same manner that an international currency exchange would. (As of the publication date the Web site was not operative.) Additionally, certain virtual worlds like *Second Life* have in-game virtual monetary exchanges.<sup>24</sup> Moreover, Web sites like [www.ige.com](http://www.ige.com) allow players to trade in virtual goods and currency for real world money.<sup>25</sup> Since intangible intellectual property of all kinds has real world value and can be relatively easily converted, the question arises as to what legal standard should be applied to the virtual world. The growing commercialization of such a world will inevitably subject it to actual laws and regulations as players seek protections for their valuable IP. If virtual world currency and goods being traded have a real world value, is it not logical that the courts and government will eventually step in to protect and regulate these digital assets? Congress recently announced the intent to investigate whether virtual world property should be subject to taxation.<sup>26</sup> At this time, no resolution on this issue has been announced. The answer to this and others issues will potentially depend on whether players are allowed ownership of items obtained or created in the virtual world. Certain proponents of ownership argue that allowing creator ownership of virtual property will foster creativity, which is the protectable interest copyright protection was first enacted to ensure. Others say that judicial determination of the ownership of a virtual "Bone Crusher Mace" is a waste of the court's valuable time.

While U.S. courts have not yet provided a virtual property ownership standard to follow in this regard, a lawsuit is currently pending against *Second Life* creator Linden Labs over a virtual property deal that went bad.<sup>27</sup> *Marc Bragg v. Linden Research, Inc.* is currently pending in the U.S. District Court for the Eastern District of Pennsylvania. While the facts of this case are still in dispute,

the case itself may lead to the first U.S. case law on the subject of virtual world property. Other previous cases involving virtual worlds settled or were abandoned prior to the creation of any new legal precedents. However, there is some international case law that has determined that individuals have rights in their virtual world possessions. In 2003, a Chinese court ruled that a game developer had to compensate a player after a hacker broke into his virtual account and stole his digital currency and property. Choosing to follow this theory may lead to some very interesting queries. If virtual property has real world value, could a game designer be held liable for destruction of property if it pulls the plug on a game due to business or monetary issues without proper compensation to the gamers? Additionally, how would the virtual economy suffer if the city, state or federal government taxed virtual real estate or monetary assets? For that matter, which jurisdiction would have claim over the assets, since they exist in the ether that is the digital world? Would virtual disputes be adjudicated in the courts, or is there a need for virtual courts, judges, arbitrators or mediators to determine a just outcome? *Second Life* already has a bar association, so it is not a large step to the next legal iteration. Even if virtual courts were to be created to handle these disputes, should they be populated by the game designers, neutral third parties or the government? All of these questions will eventually need to be determined as the virtual systems grow in size, number and membership.

## EULAs and the Closed World

Every virtual world game comes with a EULA with which the players must agree if they wish to play the game.<sup>28</sup> These rules are drafted by the designers and their lawyers to control and curtail antisocial behavior from the players. By accepting the terms of the EULA, players may waive significant individual rights. The EULA acts like a system of laws for the virtual world, creating a “closed world.” This “closed world” is intended to differentiate the virtual world as a game not subject to the real world laws and other requirements. If a player fails to comply with the obligations of the “closed world,” the “game gods” have the ability to shut down an account, which is tantamount to the death penalty for an Avatar. This is the exact circumstance that surrounds the *Marc Bragg v. Linden Research, Inc.* lawsuit. Under the general terms of these EULAs, there is no sense of private property, since the virtual world is wholly owned by the designers and builders.<sup>29</sup> These are considered to be “closed worlds,” since the border between the real world and the virtual world is clearly defined by the EULA.<sup>30</sup> Most EULAs insist that any intangible property or artifacts that exist in the game world are the property of the designers and not owned by the players.<sup>31</sup> The players may accumulate them in the course of the game but merely use them by license of the game designer. Therefore, if

the computer code allows individuals to steal property or kill other players’ Avatars, which the gamers ultimately do not own, are there any property rights that have been violated? For the most part the game designers advocate an interpretation of the law which determines the EULA to be controlling.

Game designers, through trade organizations like the International Game Developers Association, seek to limit governmental interference in the online and console-based virtual worlds.<sup>32</sup> Under this argument, if we cede legal control to virtual world property to the game designers and EULAs, we essentially negate the need to look to laws and governmental interference to protect players’ rights. Certain proponents of no virtual world ownership tout the EULA as the panacea to any issues of the need for real world law enforcement in the virtual world. Since the EULA controls what can and cannot be done and who is vested with ownership of virtual property, there is no reason to look past its terms and conditions. The *Marc Bragg v. Linden Research, Inc.* lawsuit calls into question the validity of this fundamental theory. Linden Labs is taking the position that the EULA negates the relief being requested, since the individual’s account is the property of Linden Labs and the latter can do with it what it will, including terminating the account without cause or compensation to the player. Unfortunately, this seems to be inconsistent with Linden Labs’ often advertised claim that its denizens retain ownership of all IP they create in *Second Life*.<sup>33</sup> It may be difficult for them to argue that they should be give “closed world” protection for their “open world” system. The judge has already opined, in a written decision responding to a Motion to Dismiss, that the arbitration provision in the *Second Life* EULA is unconscionable and will not be the basis for granting a motion.<sup>34</sup> This initial salvo from the court may be the first chink in the EULA armor and may call into question the validity of some of the other general provisions.

There is a certain amount of historical validity in these arguments. Individuals know that there is an inherent risk in playing football, hockey and other sports. However, the courts have generally considered there to be a “magic circle” around these sports that limits the liability for injury unless the parties have acted outside the rules of the game. If the rules of liability have carved out “magic circles” in these games, it is possible that the law could consider the EULA to have acted in a similar manner relating to the rules of a virtual world. Under this theory, then, there is no claim for theft, arson or murder if the game allows for such actions. However, given the value of the items involved, as already discussed, this would seem to be too easy an excuse to make. While a certain amount of physical punishment may be expected in sports, murder is not. Regardless of whether the rules for football specifically banned murder or omitted any mention of it, no court could possibly say that it is allowable under a “magic circle” theory. Why then would the

argument stand that a EULA should be able to decriminalize certain otherwise wrongful acts merely by allowing for them or omitting prohibitive mention of them? The rights of the individual player ultimately are what a court may find important to protect, not merely what may be easy for the game designer. Stealing a football during play is very different from stealing goods worth thousands of dollars in a virtual world, since the football will be put back in play for all players to use, while virtual goods may be sold or otherwise never again seen by their previous owners. The “game gods” reliance on the EULA may ultimately be their undoing and subject them to the type of remedy already adjudicated by the Chinese courts.

### Closed v. Open Worlds

On the other hand, “open worlds” like *Second Life* have been designed where the barrier between the real world and the virtual world is much more porous. The creation of these “open worlds” is making the questions of rights and obligations much more difficult to resolve in favor of EULA control. In the “open world” of *Second Life*, individual players retain ownership of all the real world rights to their creations in the virtual world. They are considered the owners of all the IP involved and created by them and can do with it what they will, so to speak.<sup>35</sup> Currently, in certain of the online realms, up to 80 percent of the content has been created by the users.<sup>36</sup> If the “open world” trend continues and is adopted by more and more game designers, then there will be a significant need to regulate and protect the IP ownership. Moreover, in these “open worlds,” individuals or virtual businesses are flourishing but generally not complying with the various real world legal obligations and requirements. Since people are channeling themselves via an Avatar or online personality, the argument could be made that their actions have an effect in the real world. This argument may be put to the test by the recent filing of a suit in the United States District Court for the Middle District of Florida entitled *Eros LLC v. John Doe*.<sup>37</sup> This case was brought by the same party that sold the virtual Amsterdam simulation discussed above and involves a claim that a *Second Life* Avatar known as Volkov Catteneo has infringed upon Eros’ copyright by copying and selling Eros’ virtual “sex bed” (which, as the name suggests, allows Avatars to simulate sexual activity). Given that an electronic signature is a legally valid means of consent, then why not attach legal implications to the actions of ones virtual alter ego?

### Virtual Crimes

One of the earliest examples of what has been thought of as a virtual crime occurred in 1993. The circumstances involved the posting of a real-time non-consensual written description of the rape of another player in an online game.<sup>38</sup> However, while the writer’s

conduct was somewhat repulsive to many, the elements of this case did not rise to the level of an actionable crime, since in order for a virtual crime to be actionable, it would need to contain all of the elements of the crime in the real world. Here, all the elements of a physical rape were obviously not present; moreover, the author’s textual description was most likely protected by his First Amendment free speech rights. The question then arises as to whether any action against an Avatar in the digital world be considered a crime. The courts will most likely ultimately determine an affirmative answer to this query. Given the amount of time and energy that players put into their virtual creations and the relative value of the IP in the secondary market, its injury or loss at the hands of another player or individual hacking the game world may cause real psychological and monetary harm to the victimized player. This in of itself may be an argument for allowing such circumstances to rise to the level of actionable crimes.

In the past few years events have occurred that are much easier to categorize as virtual- or virtual world-related crimes than the “virtual rape” discussed above.<sup>39</sup> While U.S. courts have not specifically dealt with these issues, other courts have faced and decided related claims. In addition to the Chinese hacker case from 2003, another report out of China tells the story of a 41-year-old man who stabbed an acquaintance who stole his “Dragon Saber” in the MMO *Legend of Mir III* and sold it for approximately \$1,000.<sup>40</sup> Initially, the injured individual sought the assistance of the police, but was told that the theft was not a crime, since virtual property is not covered as a protectable asset. Thereafter, the individual attacked the alleged thief at his residence. While this may seem like an isolated offense, some reports have determined that many thousands of virtual world related crimes of a similar type may have been committed in the last few years.<sup>41</sup> If these numbers are anywhere near being accurate, then it is only a matter of time until the governments of the world begin to better protect these rights as a way to provide a nonviolent means to seek justice or redress for virtual disputes. China, South Korea, Thailand and Vietnam have already begun to take measures to stem the tide of these crimes, including the founding of state-run clinics to treat Internet- and MMO addicted- individuals.<sup>42</sup>

### From Virtual Currency to Hard Cash

As more and more people take up residence in the virtual world, the potential for monetary abuse and malfeasance also increases. While the original virtual worlds were built by private gaming companies and, as discussed herein, were fully controlled by the designers and their all-encompassing EULAs, new MMOs have emerged providing individual players with more freedoms including the ability to create, seclude or launder wealth. The likelihood of this new technology being co-opted for unscrupulous purposes is great, since historical-

ly the same has happened in response to other advances in technology.

The majority of current MMOs are designed to allow for gamers to build up their digital persona in the virtual society by various acts, including the earning of virtual currency. This can be accomplished through the offering of virtual goods or services to others in the digital world and is, therefore, much like that of a real world society. For years gamers have been selling their digital monies, goods or property for real world compensation on auction sites like eBay.<sup>43</sup> Likewise, virtual entrepreneurs are starting and maintaining successful business ventures in the various MMOs. An example of such is Jon Jacobs, who spent \$100,000, which comprised arguably his entire net worth at the time, to purchase a digital space station in the game *Entropia Universe*.<sup>44</sup> Since his purchase, he has generated income of approximately \$12,000 a month by selling residential and commercial real estate on the station and by imposing taxes on specific activity engaged in by other players thereon.<sup>45</sup> In this instance, by imposing taxes, it would appear that Mr. Jacobs has taken on the position of a quasi-governmental agency, which in itself may be a problem. Moreover, the grand opening of the space station nightclub "Neverdie" and the profits obtained from mining/hunting rights and property sales on the station are expected to put Jacobs' net worth at \$1.5 million, making him the first-ever virtual world millionaire.<sup>46</sup> Likewise, Ailin Graef, who goes by the Avatar Anshe Chung, is referred to by some as the virtual Donald Trump.<sup>47</sup> In the game *Second Life* she charges players "Linden Dollars," worth approximately 250 to the real dollar, to rent or buy her virtual homesteads.<sup>48</sup> The value of her synthetic real estate holdings is estimated at approximately \$1,000,000 in real world money.<sup>49</sup> Additionally, both of these individuals were among five successful bidders for banking licenses in the game *Entropia Universe* at prices ranging from approximately \$60,000 to \$100,000.<sup>50</sup> These individuals are just two examples of people who are leaving the real world and taking up permanent financial and social residence in the virtual world.

Some may question what the value of virtual money is if it is stuck in the digital world, but as technology advances and changes this is no longer the case. Players were first able to convert virtual dollars to hard currency only through the use of online auction sites. This then advanced to allow players to convert their digital earning into real cash directly through the use of virtual currency arbitrage trading Web sites. On May 2, 2006, the virtual world took a huge step toward becoming part of the real world. On that date, the makers of *Entropia Universe* introduced a new plan to provide a real-world A.T.M. card to its 250,000 gamers that would allow them to instantly withdraw hard cash from their virtual world assets.<sup>51</sup> The stated conversion rate will initially be one real dollar for

every 10 Project Entropia Dollars ("P.E.D.s").<sup>52</sup> It therefore became no more difficult to access virtual monies than it had been to access real world monies, and will likely go a long way toward *Entropia Universe's* stated goal of creating a "full second reality."<sup>53</sup>

The International Criminal Police Organization, also known as INTERPOL, defines virtual money "as money value as represented by a claim on the issuer which is stored on an electronic device and accepted as a means of payment by persons other than the issuer. Virtual money is an encrypted code representing money, in the same way that paper money is only paper bearing certain characteristics such as graphics and serial numbers."<sup>54</sup>

Accordingly, therewith there are two distinct types of virtual money:

- **Identified virtual money**—contains information revealing the identity of the person who originally withdrew the money from the bank. This can be traced through the economy, by the bank or law enforcement personnel, in much the same way as credit cards.
- **Anonymous virtual money** (also known as digital cash)—once it is withdrawn from an account, it can be spent or given away without leaving a transaction trail. Using blind signatures rather than non-blind signatures creates anonymous e-money.

Virtual money is money in the real sense since it can be converted into other forms of currency. Currently a large portion of online transactions involve the use of debit and credit cards. One of the advantages and purposes of using virtual money instead of debit or credit cards is that it allows those individuals normally excluded from e-commerce, by their economic status or other reason, to participate. The cash-like nature of virtual money means that a positive credit history or an established banking relationship is not required. Given the foregoing definitions and descriptions, it seems clear that the virtual monies in the various MMOs, whether they be called P.E.D.s, Linden Dollars or otherwise, will fall within the virtual money category. Moreover, if it can be accessed instantly, safely and with relative ease, it is likely that individuals will feel that cash being held in a virtual world is not really any different from cash being held in a brick and mortar or electronic bank. With direct deposit, electronic transfers and Internet banking, many people are neither setting foot in their banking institutions anyway nor requesting to see their actual hard currency. The more the boundaries are crossed between the real financial markets and the virtual worlds, the more the games become open rather than closed. They therefore are also subject to being co-opted, which may result in monitoring by real world law enforcement.

Moreover, since virtual world monies can be passed from person to person in any amount without any reporting requirements or electronic trail, it would seem to be considered anonymous virtual money. That being said, there is the potential for various unscrupulous or illegal abuses of the virtual monetary systems which exist within the various MMOs. Certain of these potential risks are as follows: (a) unauthorized creation, transfer or redemption of virtual money; (b) utilizing a virtual market to mask the holder or value of virtual funds; and (c) criminal attacks on virtual money systems, leading to loss of virtual money value or loss of function of the virtual money system.

### **Virtual Asset Creation and Seclusion**

It is estimated that gamers transacted \$165 million dollars of business in 2006 in *Entropia Universe*<sup>55</sup> alone, which correlates to approximately \$650 dollars per player.<sup>56</sup> If one combines the number of transactions that occurred in *Entropia Universe* and the various other MMOs that year, that number tops the one billion dollar mark.<sup>57</sup> While this may not seem like much when averaged among millions of gamers, it covers the spectrum from those who do not really participate in the virtual economy all the way to those who drive the digital economy. Moreover, this does not take into account the underlying value of the IP that exists within these virtual worlds that has not been offered for sale or otherwise monetized. Therefore, the actual value of the assets in the virtual world is potentially astronomical. Currently, these games are under no obligation to track and report to the government the transactions or assets that have been amassed or held by individuals in the game. Likewise, since most assets are connected to an Avatar, a synthetic individual representation, the actual real owner of the assets is given further protection from potential discovery.

In addition to the loss of potential tax revenue to a government from creating assets or generating income in the virtual world that is not being reported, the potential for illegally secluding assets in the virtual world exists. Since the inception of *Entropia Universe* and certain other MMOs, it has been possible for players to add monies to their online accounts through the use of credit cards and electronic bank transfers.<sup>58</sup> Therefore, it could be possible not only to create assets that the government is not aware of, but also to move real world assets into the virtual world, which would continue to exist otherwise hidden from further governmental view. This possibility to shield assets or income from governmental view may alone be the impetus for certain individuals to hide behind the persona of an Avatar. Through these various levels of ownership, it could be possible to create and hold significant financial assets that are not reported or subjected to scrutiny by the income- or estate-taxing authorities. Combine this with the ability to access these

funds at a moment's notice in the real world with an A.T.M. card, and there is a recipe for illegal activity.

### **Virtual Money Cyberlaundering**

Traditional money laundering involves significant physical effort. A party must conceal the existence and source of the funds and then disguise the monies to make it appear legitimate. To expect to accomplish this successfully requires that the launderer have the means to physically move the hard currency while avoiding attracting unwanted attention by various government agencies. Initially, this was very low tech, and might involve such acts as transporting monies out of the country to regions with lax banking regulations or making multiple deposits into various accounts that are under the \$10,000 reporting threshold. However, in 1986 the Money Laundering Control Act was enacted in an attempt to further criminalize these laundering techniques.<sup>59</sup> As technology has increased, savvy launderers have begun to seek quicker and easier methods to "clean" their monies. Electronic funds transfers or wire transfers became the favored means to accomplish this task, since they provide swift and nearly risk free conduits for moving money between and among countries. However, these transactions involve the use of "identified virtual money," as discussed above, so there is still a certain ability to track the source and recipient of the funds. Moreover, while wire transfers contain only limited information regarding the parties involved, more and more governmental investigative agencies are attempting to keep pace with the mountain of daily transactions with an eye toward stopping any illegal uses.

The great demand for efficient consumer transactions has led to the establishment of electronic cash, which has been embraced by launderers due to its potentially anonymous nature.<sup>60</sup> Electronic cash, or digital money, is virtual world replacement for hard currency, and like hard currency, once it is removed from an account it can be transferred or given to any other party without leaving a trail, electronic or otherwise. With such freedom of unregulated and unreported access and transfer, as being offered first by *Entropia Universe's* accounts, the Money Laundering Control Act will be difficult to fully enforce. Moreover, since *Entropia Universe's* accounts are likely non-FDIC insured and presumably lack federal regulation, there should be no mandatory compliance with the filing regulations contained within the Money Laundering Control Act of 1986. Currently, gamers in the virtual world are able to buy, sell, give and trade monies and goods. Therefore, it is possible for one virtual world Avatar to arrange a meeting with another one, who may or may not be in another country or continent, and drop off goods or monies worth significant sums of hard currency for the other party to take up. Thereby, the digital transfer of a potentially significant sum may take place without being reported to any regulatory or investigative agency.

The individual controlling the second Avatar could potentially then immediately access the monies through the use of the *Entropia Universe* A.T.M. card. All of this has been done quickly and easily; resulting with one party now having “virtually clean” money, pun intended, without leaving a trail for investigators to follow. Therefore, if *Entropia Universe* accounts, or those provided by other gaming companies which will likely follow suit, are able to continue to operate outside the reach of current federal regulations, laundering funds through an MMO may become the easiest method ever. To combat this, the makers of *Entropia Universe* claim to have vetted their A.T.M. idea with the Swedish Government, where the company is located, and have ensured that protective measures have been taken to avoid any such monetary malfeasance.<sup>61</sup> However, since the company has not released the exact nature or extent of these steps and has not dealt with the IRS or other U.S. agency in creation thereof, whether or not the measures will pass muster under U.S. laws or could otherwise be circumvented is still open for further debate.

### Virtual Monetary System Attacks

Recently, in South Korea two individuals manipulated a virtual world server to create virtual currency worth over \$1 million dollars.<sup>62</sup> However, this is nothing new. While not looked upon favorably by the game companies, utilizing flaws or hacking into the systems controlling the virtual world has occurred in the past to create virtual wealth for a player. It raises the question as to whether creating virtual dollars, which can be converted to real world money, is merely a computer hacking crime or is it tantamount to counterfeiting or forgery? How different would it be from passing off counterfeit U.S. dollars in the international market or hacking into a bank’s account system and wrongfully inflating a customer’s bank balance? While this act may also fall within the creating of virtual wealth section, it demonstrates the potential for attacks on the virtual world monetary systems. As with the real world, creating counterfeit virtual money can act to deflate the rest of the virtual world economy. This becomes a problem, since the value of every other individual’s assets in the virtual world is lessened to some extent and can cause inflation to run rampant in the system. Moreover, if more monies are wrongfully inserted into a system allowing for A.T.M. cash withdrawals than the gaming company can cover, this could potentially cause “a run on the bank,” so to speak, which may cause serious financial damage to the company itself. It is not a difficult scenario to imagine a technically adroit and criminally inclined individual breaking into a virtual world server and either creating from scratch or intentionally and wrongfully transferring property or monies from other parties to an Avatar under his control. As has been shown historically, money launderers or organized crime members are nothing if not

creative in using technology or innovation in furtherance of their various schemes.

### Virtual Terrorism

Recently, groups have appeared in the virtual world whom some refer to as virtual revolutionaries, while others mark them as virtual terrorists.<sup>63</sup> These groups are utilizing flaws in the virtual world code that allow them to create guns that shoot other Avatars and explosives to bomb virtual buildings. While the results of these disruptions are currently minor and do not cause any lasting damage to the targeted Avatars or buildings, they are interfering with other Avatars in the virtual space.<sup>64</sup> Specifically, a recent group calling itself the Second Life Liberation Army (“SLLA”), has taken to detonating virtual atomic bombs in and around several virtual businesses in *Second Life*.<sup>65</sup> Replete with the requisite terrorist manifesto, SLLA has stated that it will continue its actions until it has forced Linden Labs, the creator of *Second Life*, to abdicate its “authoritarian” governmental control in favor of a democracy representing the various *Second Life* denizens.<sup>66</sup> While SLLA’s actions seem to be somewhat extraordinary, they only follow from other successful rebellious campaigns. About three years ago, various *Second Life* Avatars re-created the Boston Tea Party as a demonstration against a tax on virtual world items that Linden Labs had enacted. In the end, the tax was repealed, in part as a result of the demonstration.<sup>67</sup> Given SLLA’s more violent approach to virtual civil disobedience, it will be interesting to see if these “non-lethal” methods currently being used to get the message across continue or are intensified with more long-term disruptive results. If so, the potential for the types of virtual crimes being discussed herein may likewise intensify.

### Current Governmental Policing

INTERPOL is obviously wary of an MMO being co-opted for nefarious purposes, as demonstrated by its Web site discussion of virtual money, which includes the following: “[o]nline games now have their own foreign exchange which lets players buy and sell different virtual currencies, just as in the real world. Criminals will undoubtedly take advantage of this.”<sup>68</sup> Given the privacy protection that an Avatar can provide in the virtual world, a governmental investigative agency would not have access to the identity or transactions of any individual without the cooperation of the company that developed and maintains the particular game. Furthermore, some of these companies are based in regions which are not amenable to fostering such cross-border investigative cooperation. Moreover, it could be possible for a well-funded criminal organization to actually create an MMO for the sole purpose of masking and/or advancing their criminal objectives. All of these hurdles may make investigation and enforcement of the various current laws very

difficult, if not impossible, unless greater monitoring and reporting requirements are attached to the virtual world. Given the current state of things, we truly have entered into a “brave new world.”

It seems that the possibility of an MMO being co-opted for criminal purposes has not yet become a subject of investigation in the United States. However, in the interim there are certain laws, like the United States Computer Fraud and Abuse Act,<sup>69</sup> which could be used to grant some element of justice for a virtual crime or injury. The Act provides an actionable claim when one intentionally accesses a computer without or exceeding the individual’s authorization and causes damage in excess of \$5,000. While a more targeted set of laws may be required to deal with the various nuances of the virtual world, this act may be used as a stepping stone until such laws are in place.

## Conclusion

The foregoing is intended to be a non-exhaustive discussion of the current state of the law of the virtual world. There are various other potential problems and defenses that the individual players and virtual world creators may have for their actions or failures to act. As demonstrated, the problems and legal issues involved in the virtual world are very complicated and still at a nascent stage. They cover the gambit from IP issues and contract law to the First Amendment. Only time will tell as to how courts will adjudicate these issues. However, the impact of such decisions will need to be considered and taken seriously, for they will likely have wide-reaching ramifications. The virtual world is moving away from its strictly console-based videogame ancestors to a less structured realm. It is not merely made up of individual gamers without any impact on the non-gaming public. Many of the experts in the field believe that the current virtual world technology will soon merge with the search functions and capability of the Internet to create a three-dimensional World Wide Web. To some extent, when and if this comes to pass, the issues discussed herein will continue to play out. Therefore, it is important that the courts consider the full impact of any early virtual world precedent that is decided. For this to be properly considered, the courts must consult with those individuals that fully understand the implications of the virtual world. From all the above, it is clear that Judge Posner was correct in his assertion that studying virtual world issues is a worthwhile endeavor.

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# Photography Law—A 20-Year Retrospective

By Joel L. Hecker

To paraphrase the old saying that “you’ve come a long way, baby,” the use of professional photography in commerce has, indeed, made quantum leaps in the past 20 years.

From the use of black and white negatives to color transparencies to electronic and digital imagery, the courts have had to deal with issues of increasing concern in the ever-evolving world. This article will present an overview of some areas where photography law has had a significant impact in the marketplace.

## Valuation—When Photography Is Lost

Professional photography is now a multi-billion-dollar industry. The largest segment of the industry is driven by stock photography, which is the licensing of previously created and existing images by stock photography agencies. They act, in effect, as lending libraries. These agencies, on behalf of and as agents for the creating photographers, license for a negotiated fee usage rights to existing images for virtually unlimited purposes, including advertisements, products, magazines and merchandise.

Since these professionally created copyrighted images can, pursuant to the United States Copyright Act, be licensed over and over again for different purposes to different users, the courts have been called upon to determine how to value them when they have been lost by licensees.

The first trial court to develop a test to be used to determine such valuation occurred in *Rattner v. Geo Magazine and Gruner and Jahr AG & Co.*,<sup>1</sup> a case I tried before Justice Shorter in Supreme Court, New York County. In his decision entered on February 19, 1987, Justice Shorter recognized that a bailment had been created when the plaintiff photographer forwarded 39 original professional copyrighted photographic transparencies to *Geo Magazine*, which in turn forwarded them to its parent company in Germany. The images were subsequently sent back to New York for return to the photographer but were lost in New York City due to the defendants’ negligence. Therefore liability was conceded.

The court determined that the value of a photographic transparency is an abstract concept embracing numerous factors, including technical excellence, the selective eye of the photographer, the established prestige and earning level of the photographer, uniqueness of subject matter, established sales or use prices, osmotic interaction deriving reflective value from the group, and frequency of acceptance by users. These factors have, by and large,

been accepted by subsequent federal and state courts with modifications to fit the individual facts of each case.

Advances in technology, and in particular, the use of digital or electronic methods of distribution, including CDs, DVDs, and Internet downloads, has drastically reduced the use of original photographic negatives and transparencies, and therefore the number of instances where valuation of lost images come into play. However, that is not to say that they are gone entirely.

As recently as May 25, 2007, in *Grace v. Corbis-Sygma*, the United States Second Circuit Court of Appeals had occasion to weigh in on this issue.<sup>2</sup> In the lower court decision,<sup>3</sup> the district court determined that the submission of the images to Sygma (a stock photography agency later acquired by Corbis Corp.) was a bailment for mutual benefit, since Sygma was obtaining fees for its licensing services. Therefore, Sygma was presumed to have been negligent in failing to return the missing images. Since it did not provide a sufficient explanation for the loss, the district court found Sygma to be liable.

As to the damages, the district court’s determination that Grace was entitled to \$472,000 without pre-judgment interest was reversed by the Second Circuit, which held that the lower court judge had applied an arbitrary methodology with its award untethered to the facts or its own correct analysis of the applicable law. The Second Circuit stated that it was simply unable to identify the formula applied by the district court and remanded the case for further consideration using an appropriate methodology in determining damages.

The circuit court suggested a methodology for the district court to follow on remand in recalculating the damages. The formula, which followed the *Rattner* concept, suggested that the court first ascertain, as nearly as reasonably possible, the number of lost images. The court “might” next consider Grace’s past annual earnings, the earnings per year from the lost images, and other seemingly relevant factors. The circuit court made it clear however, that the district court would be free to come to any reasonable conclusion after reviewing the evidence, but suggested that its proposed formula rested on two assumptions: that the market value of the lost images could be determined by establishing or inferring previous earnings, and that the requisite uniqueness element of each image is reflected in these earnings.

The circuit court also determined that, under New York Law, pre-judgment interest should have been awarded. Since such pre-judgment interest would now cover

over six years, the amount eventually calculated will be a significant award in and of itself.

The decisions suggest that, over the past 20 years, the courts have looked at the essence of each transaction to come up with realistic valuations. These guidelines should continue to aid practitioners as and when future cases arise.

### **National Geographic Litigations**

In 1997, the National Geographic Society (“NGS”) released a 30-year disc CD-Rom set containing each monthly issue of its magazine for the 108 years from 1888 through 1996, a collection of some 1,200 issues of the magazine. It is called the “Complete *National Geographic*” (“CNG”).

The CNG is an image-based reproduction of the magazine. Every page of every issue appears exactly as it did in the original paper version, including advertisements. It also contains a computer program that compresses and decompresses the images and allows the users to search an electronic index. It further contains an introductory sequence that begins when the user inserts the disc into a drive. This sequence starts with a Kodak ad, then shows a moving display of NGS’s logo and theme song, and a 25-second segment in which 10 issues of actual magazine covers from past issues digitally fade into one another.

Lawsuits by various photographers followed publication, most of which were consolidated in the United States District Court for the Southern District of New York, and by Jerry Greenberg in Florida. The plaintiffs alleged in each instance copyright infringement arising out of this additional use of the copyrighted photographs.

Greenberg initially won his case in Florida, where a jury awarded him \$100,000 in statutory damages for the four images involved, or a total of \$400,000. On appeal, the Eleventh Circuit Court of Appeals affirmed the holding.<sup>4</sup> Three months later, on June 25, 2007, the Supreme Court decided *New York Times Co. v. Tasini*.<sup>5</sup> This case established a new framework for application of the section 201(c) privilege,<sup>6</sup> which grants to the publisher of a collective work a copyright to the collective work as a whole, while the author of an individual contribution to a collective work receives a copyright to that individual contribution.

The court held that electronic and CD-ROM databases containing individual articles from multiple editions of periodicals were not reproduced and distributed as part of revisions of individual periodical issues from which the articles were taken. Therefore, publishers of periodicals could not re-license individual articles to databases under Section 201(c) absent a transfer of copy-

right or any rights thereunder from authors of individual articles.

Thereafter, on March 5, 2005, the Second Circuit Court of Appeals in New York ruled in *Faulkner v. National Geographic Enters. Inc.*,<sup>7</sup> a case involving substantially the same facts but different photographers, that the use of those photos in CNG was privileged under section 201(c) and therefore not an infringement. This holding created a conflict between the two circuit courts of appeals and left the law muddled.

The *Greenberg* case, which at this time was on remand from an appeal concerning the amount of damages and attorneys’ fees, reached the Eleventh Circuit again. This time, Greenberg lost.

The Eleventh Circuit Court of Appeals’ three-judge panel<sup>8</sup> initially determined, as had the Second Circuit Court of Appeals, that the *Tasini* decision was an intervening change in the law that occurred since the initial *Greenberg* decision. This required the court to look at the issues again through the eyes of *Tasini*.

The Eleventh Circuit panel then concluded that the Second Circuit was in fact correct, and that the analysis of the original *Greenberg* decision was now wrong in light of the Supreme Court’s intervening decision. It therefore dismissed Greenberg’s claims concerning the digitally reproduced issues of the magazine, vacated the jury verdict and damage award, but remanded for trial the issues concerning use of Greenberg’s photo and the Kodak ad in the introductory sequence, which had not been part of the original magazine issues.

However, the full Eleventh Circuit Court of Appeals has now granted an *en banc* hearing, which means that all of the active judges will review the case anew with the initial decision by the three-judge panel being vacated.<sup>9</sup>

The Eleventh Circuit must now determine, as an entire court, whether it agrees with the Second Circuit that the *Tasini* decision was an intervening change in the law which occurred since the initial *Greenberg* decision, and if so, should the lower court decision in *Greenberg* stand or be vacated.

As a result, 10 years after the release of the CNG, there is still, at least temporarily, a split in the circuit courts of appeals and a lack of uniformity in this area of the law.

### **Copyright Infringement**

Broadly speaking, copyright infringement occurs when protectable elements in a copyrightable work are copied by someone else without the consent of the copyright owner and is not subject to one of the exceptions under the fair use provisions.

In the past 20 years, the use of photography in the marketplace and over the Internet has expanded dramatically. As a result, the nature and extent of copyright infringement cases involving photography has also significantly increased, both in the number of cases and the scope of subject matter. Non-representative samples of a few interesting cases follow.

### Use of Props in Television and Movies

In *Ringgold v. Black Entertainment Television, Inc.*<sup>10</sup> the Second Circuit Court of Appeals held that use of a work of art entitled “Church Picnic Story Quilt” was plainly observable in a television sitcom episode, was well suited as a set decoration for the scene portrayed, and was used precisely for the purpose for which the art was created—to be decoration. The image was visible during nine sequences ranging from 1.86 to 4.16 seconds, or an aggregate of 26.75 seconds in all.

*Ringgold* was followed by *Sandoval v. New Line Cinema*,<sup>11</sup> where several photographs appeared in a movie scene on a large light box on a back wall of an apartment. The light box is on for approximately 90 seconds, making the photos briefly visible but with insufficient detail for the average lay observer to identify that subject matter or the style of the photographer. The court held such use was *de minimis* and thus not copyright infringement.

These two cases reinforce the age-old adage that to infringe, the use must be a recognizable taking. In *Ringgold*, it was obvious, although of limited duration. In *Sandoval*, it was not, which was decisive.

### Commercial Parody: *Naked Gun 33 1/3*

You will undoubtedly recall the famous *Vanity Fair Magazine* cover of a pregnant and serene Demi Moore photographed by Annie Leibovitz and the “knock-off,” where the head of Leslie Nielsen was superimposed on a body re-created to be identical to the Demi Moore image. This knock-off was used to advertise the then upcoming movie, *Naked Gun 33 1/3: The Final Insult*.

In the ensuing litigation, the Second Circuit Court of Appeals<sup>12</sup> affirmed the district court’s transformative nature of the latter image, and the acknowledged absence of any harm to the original work, to be controlling in finding that it fell within the parody exception. Of particular importance to the court was that, aside from ridiculing pretentiousness, the ad might also be reasonably perceived as interpreting the Leibovitz photograph to extol the beauty of the pregnant female body and to express disagreement with this message. The comment was a reasonable contrast between “a serious portrayal of a beautiful woman taking great pride in the majesty of her pregnant body . . . [and] a ridiculous image of a smirking foolish-looking pregnant man.”<sup>13</sup>

### A Peek into the Future

The following scenario is a real case, not a law school test question.<sup>14</sup> It may very well be where our future lies.

Alison Chang, a 15-year-old female student from Dallas, posed with her friend for a photo while at a local church-organized car wash. Weeks later, that photo was posted online, where it was seen by representatives of an Australian advertising agency. The agency used the photo on a billboard in Australia as part of a Virgin Mobile advertising campaign. The photo had been altered to eliminate the friend and remove an Adidas logo from Ms. Chang’s hat. The modified image was accompanied by a mocking slogan—according to the ad, she was the kind of “loser pen pal” that Virgin Mobile’s subscribers would finally be able to dump when they get a cell phone.

How did this happen? The image had been uploaded by the photographer, her church youth counselor, to the Flickr photo sharing service owned by Yahoo!, which site has become a global clearinghouse for images. The site allows users to search through posted digital photo albums of strangers for topics, faces or locations. The Australian ad executives apparently used the site as a casting call location.

How did our 15-year-old find out about the ad? Another Flickr member from Australia photographed the ad and posted it on Flickr to share her photograph with other amateur photographers and to tell the photographer church youth counselor of the success of his car wash photo. Our 15-year-old found out about it, but was not amused. The ensuing lawsuit by Chang and her family for invasion of privacy is now pending in Federal District Court in Dallas against various parties.<sup>15</sup>

Since the photographer had posted the image with a non-profit group, together with a license allowing anyone to use it in any way, including for commercial purposes, he had no claim for copyright infringement. Yet he obviously could not give away the 15-year-old’s right to privacy.

I think we can all rest assured that, in the world of photography, such a convoluted set of facts is only the beginning of what will occur!

### Conclusion

In the last 20 years, the Supreme Court, a number of the circuit courts of appeals, and countless district courts have been required to determine numerous and varied cases including photography related issues. This trend can only continue as photography continues its expansive presence in our electronic world.

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And here's to another 20 years!

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# ***United States v. Martignon:* The Lurking Treaty Compliance Problem and Potential Solutions**

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## **I. Introduction**

The long-awaited decision of the United States Court of Appeals for the Second Circuit in the case *United States v. Martignon*<sup>1</sup> has many implications, but one that has received little attention is the problem it may create for United States compliance with the WIPO Performances and Phonograms Treaty (the “WPPT”) and certain U.S. free trade agreements (“FTAs”). The Second Circuit in *Martignon* upheld the constitutionality of the federal criminal provision banning bootlegging of live musical performances, 18 U.S.C. § 2319A (“Section 2319A”), rejecting arguments that Section 2319A (which on its face contains no time limit) violated the Copyright Clause’s requirement that any rights granted under the Clause be for “limited Times.”<sup>2</sup> Its reasoning, however, arguably undermines the constitutionality of that provision’s civil sister, 17 U.S.C. § 1101 (“Section 1101”), which also contains no express time limit. The main factors on which the court relied to hold Section 2319A constitutional—the fact that, as a criminal statute, Section 2319A does not secure private rights, and the fact that it does not “allocate property rights in expression”—all arguably cut against the constitutionality of Section 1101, which does create private rights that arguably allocate property in expression. This is a concern because Section 1101 is probably necessary for U.S. compliance with the WPPT and certain U.S. FTAs.

This article discusses four arguments that a court could employ, within the analytic framework established by *Martignon*, to avoid the constitutional pitfalls that *Martignon* sets up for Section 1101. We review the relative merits of these arguments, including the degrees to which they resolve the potential treaty<sup>3</sup> compliance problem. Although we do offer some criticisms of *Martignon*’s analytic framework, our primary focus is on finding the best way, as a matter of copyright policy and compliance with international obligations, to preserve Section 1101’s constitutionality within that framework, rather than on offering alternative frameworks.

In Part II we provide a description of the *Martignon* case as well as the two other cases that have addressed the constitutionality of Section 2319A and Section 1101. Part II also explains the potential treaty compliance problem. Part III then lays out the four arguments that could be employed to uphold the constitutionality of Section 1101, and discusses their relative merits. In Arguments A and B, we offer two interpretations of Section 1101 that would ensure that the Section does not “allocate property

rights in expression.” Under the *Martignon* framework, the fact that a statute does not allocate property rights in expression leads, after a few additional analytical steps, to the conclusion that the statute does not offend the Copyright Clause. However, both Argument A and Argument B have significant problems: Argument A may rest on a faulty analogy to Supreme Court precedent, and Argument B may render Section 1101 non-compliant with the WPPT and the FTAs. Therefore, in Arguments C and D, we offer ways that a court could hold that Section 1101 is constitutional even while holding that Section 1101 *does* allocate property rights in expression. Finally, Part IV summarizes the results in a conclusion.

## **II. Background**

### **A. The Uruguay Round Agreements Act**

In April 1994, the United States signed the Uruguay Round Agreements.<sup>4</sup> These were agreements under the auspices of the General Agreement on Tariffs and Trade that created the World Trade Organization.<sup>5</sup> Included in the Uruguay Round Agreements was the Agreement on Trade-Related Aspects of Intellectual Property Rights (“TRIPS”),<sup>6</sup> and included within TRIPS were obligations to provide to performers 1) the “possibility of preventing” the “fixation of their unfixed performances and the reproduction of such fixation,” and 2) the “possibility of preventing” the “broadcasting by wireless means and the communication to the public of their live performance.”<sup>7</sup>

Later in 1994, Congress enacted Section 2319A and Section 1101 as part of the Uruguay Round Agreements Act (the “URAA”),<sup>8</sup> with the intent that they would implement the TRIPS obligations related to performers.<sup>9</sup> Section 1101 provides that anyone who, without the consent of the performer or performers involved, 1) fixes the sounds of a live musical performance, 2) reproduces the unauthorized fixation, 3) transmits or otherwise communicates to the public the performance, or 4) distributes, sells, offers to sell, rents, offers to rent, or traffics in copies of the fixation will be subject to certain remedies in the Copyright Act.<sup>10</sup> Section 2319A provides criminal penalties for the same conduct, but adds a requirement that the conduct has been performed “knowingly and for purposes of commercial advantage or private financial gain.”<sup>11</sup>

### **B. Moghadam**

*Martignon* was not the first case to consider the constitutionality of the URAA performer provisions. In *United States v. Moghadam*,<sup>12</sup> the defendant was convicted

of violating Section 2319A on the basis of trafficking in unauthorized recordings of live musical performances. On appeal, the United States Court of Appeals for the Eleventh Circuit upheld the constitutionality of Section 2319A. The court reached this conclusion solely on the basis of Congress's authority under the Commerce Clause, having concluded that the "link between bootleg compact discs and interstate commerce and commerce with foreign nations is self-evident."<sup>13</sup>

However, in doing so the Eleventh Circuit addressed certain alleged constitutional infirmities associated with Congress's authority to enact Section 2319A under the Copyright Clause, focusing in particular on the view that "Writings" means subject matter that has been reduced to tangible form. The court noted various authorities supporting the view that a fixation requirement is embedded within the term "Writings."<sup>14</sup> However, the court also observed that for some time "Writings" has been interpreted broadly "to include much more than writings in the literal sense, or lay definition of the word."<sup>15</sup> In any event, because the court decided the case solely on the basis of Congress's Commerce Clause authority, it declined to decide whether "Writings" encompassed unfixed musical performances.<sup>16</sup> Instead, it assumed *arguendo* that such a requirement was included within the term, precluding the Copyright Clause as a source of authority for Section 2319A.<sup>17</sup>

Turning then to the Commerce Clause as an alternative source of authority, the court found that in general the various grants of legislative authority in the Constitution stand alone and must be independently analyzed, and what cannot be done under one may be doable under another.<sup>18</sup> The court also discussed cases recognizing this principle in the context of intellectual property: the *Trade-Mark Cases*,<sup>19</sup> and *Authors League of America v. Oman*.<sup>20</sup>

### C. *KISS Catalog*

In *KISS Catalog v. Passport International Products*, the U.S. District Court for the Central District of California became the first court to consider the constitutionality of Section 1101.<sup>21</sup> The court agreed with much of the reasoning in *Moghadam*, and held that Section 1101 was constitutional. The court recited the maxim that legislation should be construed as constitutional if possible,<sup>22</sup> and, noting the *Moghadam* court's observation that "the link between bootleg compact discs and interstate commerce and commerce with foreign nations is self evident,"<sup>23</sup> held that the Commerce Clause provided an adequate basis for Section 1101.<sup>24</sup>

The court considered the question of whether, even if the Commerce Clause provided a constitutional basis for Section 1101, an analysis was necessary to determine if Section 1101 violated any of the constraints imposed by the Copyright Clause on statutes promulgated under it. The court expressed the view that this analysis was not

necessarily required, and held that *Railway Labor Executives' Association v. Gibbons*<sup>25</sup> was not to the contrary. In that case, the Supreme Court invalidated a bankruptcy statute that was clearly inconsistent with Congress's authority under the Bankruptcy Clause, but noted that reading the Commerce Clause in a way that provided authority for the legislation would "eradicate from the Constitution a limitation on the power of Congress to enact bankruptcy laws."<sup>26</sup>

In *KISS Catalog*, however, the court emphasized that in *Gibbons* the language of the challenged legislation, its legislative history, and the circumstances surrounding its passage led the Supreme Court to conclude that Congress was exercising its power under the Bankruptcy Clause—it was a bankruptcy statute, and not a "bankruptcy-like" statute. By contrast, in *KISS Catalog* all parties agreed that Congress did not have authority to protect live performances under the Copyright Clause. Moreover, in the court's view a holding that the Commerce Clause provided authority for Section 1101 would not negate any of the purposes, protections or limitations established by the Copyright Clause. Further, as in *Moghadam*, the court focused on "Writings" as the subject matter that is critical for Congress's authority under the Copyright Clause. In the court's view, the Copyright Clause "allows Congress to protect a narrowly defined subject matter within defined parameters," so for the court, "the question is whether matters not encompassed within the Copyright Clause can be addressed by the Commerce Clause free of the restrictions of the Copyright Clause. The answer to that question is, clearly, yes."<sup>27</sup>

### D. *Martignon*

In *Martignon*, the defendant was charged with violating Section 2319A by distributing recordings of live performances that had been recorded without the consent of the performer. Martignon moved to dismiss the indictment, arguing that Section 2319A violated the Copyright Clause, because live performances are not "Writings," and because the protection of Section 2319A is not for a "limited Time." The government responded that Congress had authority to enact Section 2319A under the Commerce and Necessary and Proper Clauses.

The District Court granted Martignon's motion to dismiss. The court held that even if Congress had the power to enact Section 2319A under the Commerce Clause, the statute must be classified in a way that respected the "express limitations imposed on Congress when regulating in the respective arena."<sup>28</sup> The court then provided four reasons for classifying Section 2319A within the arena of copyright, and therefore subject to the limitations of the Copyright Clause: 1) Section 2319A flowed from the TRIPS Agreement, which was intended to protect intellectual property; 2) the statute was consistent with the purpose of the Copyright Clause, encouraging authors to create; 3) the Senate Judiciary Committee's report describes the legislation only in terms of copyright; and 4) Section

2319A follows the criminal copyright provision in Title 18, and refers to the definitions in Title 17, “Copyrights.”<sup>29</sup>

On appeal, the Second Circuit vacated dismissal of the indictment and remanded the case to the district court. The opinion focused initially on the constitutional question: the situations where Congress may “enact legislation under one constitutional provision that it could not have enacted under another.”<sup>30</sup> After reviewing *Heart of Atlanta*, the *Trade-Mark Cases*, and *Gibbons*, the court stated that these cases “allow regulation of matters that could not be regulated under the Copyright Clause in a manner arguably inconsistent with that clause unless the statute at issue is a copyright law.”<sup>31</sup> The court then concluded that “Congress exceeds its power under the Commerce Clause authority by transgressing limitations of the Copyright Clause only when (1) the law it enacts is an exercise of the power granted Congress by the Copyright Clause and (2) the resulting law violates one or more specific limits of the Copyright Clause.”<sup>32</sup>

The court’s conclusion, however, creates a new question: When is a law an “exercise of the power granted by the Copyright Clause”? That is, when is a law not merely “copyright-like,” but truly a “copyright law” for purposes of invoking the limitations of the Copyright Clause? The *Martignon* court said that in light of *Gibbons*, it must “consider whether Section 2319A is a copyright law in the sense that [the law at issue in *Gibbons*] was a bankruptcy law.”

The court discussed two ways of answering the question. The first was based on the text of the Copyright Clause, which, the court noted, empowers Congress to “secur[e] . . . Right[s].” Thus, in the court’s view, “the issue becomes whether Section 2319A creates, bestows, or allocates rights.” Second, the court found that a “copyright law” could be defined by history and context, i.e., the common characteristics of statutes not subject to the limitations of the Copyright Clause, but which are concededly copyright laws (specifically, copyright laws in the colonies before ratification of the Constitution, colonial-era British copyright laws, and “state copyright laws”). The common feature of these laws, in the court’s view, is that they “allocate property rights in expression.”<sup>33</sup>

Having developed these two modes of analysis, the court then applied them to Section 2319A, and quickly concluded that it does not create or bestow property rights, or allocate rights among various claimants. Rather, as a criminal statute, it “creates a power in the government to protect the interests of performers from commercial predations.”<sup>34</sup> The court also focused specifically on the fact that generally property rights provide a measure of excludability,<sup>35</sup> but Section 2319A does not, saying that Section 2319A “does not grant the performer the right to exclude others from the performance—only the govern-

ment can do that.”<sup>36</sup> The court also noted that Section 2319A does not create a right that is transferable.<sup>37</sup> Thus, the court concluded that Section 2319A was not an exercise of power under the Copyright Clause under either mode of analysis: “Section 2319A is not a law ‘secur[ing] . . . rights,’ nor is it a copyright law.”<sup>38</sup>

The court also compared and contrasted the language of Section 2319A with other sections of the Copyright Act, which reinforced the conclusion that Section 2319A is not a “copyright law.” For example, the court noted that 17 U.S.C. § 106 clearly provides the author with exclusive rights—with “an extensive bundle of rights in his fixed work.”<sup>39</sup> The court noted that under the Copyright Act these rights are transferable.<sup>40</sup> Having concluded that Section 2319A is not a “copyright law,” the court went on to say it had “no need to examine whether it violates limits of the Copyright Clause. . . .”<sup>41</sup>

It should be noted that in various places the court left room for certain aspects of its conclusions to be revisited. For example, the court noted that to resolve this case, it “need not identify the full scope of the power granted by the Copyright Clause.”<sup>42</sup> Further, the court also said, “though allocation of property rights is not a sufficient condition for calling something a copyright law, it is a necessary one.”<sup>43</sup> Presumably then, subsequent courts could revisit *Martignon*’s test to determine whether additional conditions may be necessary for a law to be a “copyright law,” and therefore subject to the limits of the Copyright Clause.

#### E. TRIPS, the WPPT and the FTAs

As discussed above (*see* Part II.A.), Section 2319A and Section 1101 were enacted as part of the URAA to satisfy the United States’ obligations under TRIPS. The TRIPS provision these laws implement is Article 14(1), which requires the following:

In respect of a fixation of their performance on a phonogram, performers shall have the possibility of preventing the following acts when undertaken without their authorization: the fixation of their unfixed performance and the reproduction of such fixation. Performers shall also have the possibility of preventing the following acts when undertaken without their authorization: the broadcasting by wireless means and the communication to the public of their live performance.<sup>44</sup>

Significantly, this passage uses, in both sentences, the phrase “possibility of preventing.” Other rights for creators guaranteed by TRIPS (and other treaties)<sup>45</sup> often speak in terms of “the exclusive right of authorizing” or “the right to authorize or prohibit”—indeed, the provision directly following Article 14(1) contains the

phrase “the right to authorize or prohibit” with respect to a reproduction right for producers of phonograms.<sup>46</sup> Since at least the time of the Rome Convention in 1961,<sup>47</sup> the phrase “possibility of preventing” has been interpreted “to allow countries . . . to continue to protect performers by virtue of criminal statutes” as opposed to providing a civil right of action.<sup>48</sup> The Rome Convention uses this phrase in an article that requires parties to provide certain protections to performers from the unauthorized fixation, reproduction of fixation, and broadcasting of their live performances.<sup>49</sup>

Thus, for purposes of TRIPS, it is sufficient to protect performers from the unauthorized recording of their broadcasts by way of a criminal statute; TRIPS does not require that a Member state provide a property right to the performer (or any other sort of civil cause of action, for that matter).<sup>50</sup> Therefore, while both Sections 2319A and 1101 were part of the Uruguay Round Agreement Act, it appears that only the former was required for implementation of TRIPS.

However, subsequent to TRIPS in 1994, the U.S. entered into several other agreements that protect live performances: specifically, the WPPT<sup>51</sup> and several FTAs. In the WPPT article that relates to live performances, the phrase “possibility of preventing” is gone—replaced by “the exclusive right of authorizing.”<sup>52</sup> This language is similar in effect to the language that the Rome Convention avoided (“the right to authorize or prohibit”).<sup>53</sup> Therefore, it does not appear to be sufficient under the WPPT for a party to protect performers from unauthorized fixation, reproduction and broadcasting of their live performances by criminal statute alone. Such a criminal statute would not appear to provide the performer with “the exclusive right of authorizing.”

The WPPT, however, contains no enforcement mechanism: the remedy for violation of it is thus unclear. In the last decade, however, the WPPT provision related to unfixed performances was incorporated into numerous FTAs—which do have an enforcement mechanism. For example, the Dominican Republic–Central America–United States Free Trade Agreement (between the U.S. and Costa Rica, the Dominican Republic, El Salvador, Guatemala, Honduras and Nicaragua) contains the following provision:

Each Party shall provide to performers the right to authorize or prohibit:

- (a) the broadcasting and communication to the public of their unfixed performances except where the performance is already a broadcast performance; and
- (b) the fixation of their unfixed performances.<sup>54</sup>

Identical or similar language appears in the FTAs between the United States and Bahrain,<sup>55</sup> Morocco,<sup>56</sup> Australia,<sup>57</sup> Singapore,<sup>58</sup> Chile,<sup>59</sup> and Oman.<sup>60</sup> This provision is also in every FTA currently awaiting approval by Congress: Korea,<sup>61</sup> Panama,<sup>62</sup> Colombia,<sup>63</sup> and Peru.<sup>64</sup>

Therefore, if Section 1101 were held to be unconstitutional, the U.S. might be out of compliance not only with WPPT but also with these 11 FTAs with 16 countries. While it is true that the U.S. is free to implement these obligations through state, as opposed to federal, law and that (according to one count) 30 states do in fact have anti-bootlegging statutes,<sup>65</sup> this of course leaves 20 others. Moreover, the benefits of federal implementation—1) uniformity;<sup>66</sup> 2) U.S. Customs’ concern with seizing imports based solely on state law;<sup>67</sup> and 3) providing a strong, clear example to other countries<sup>68</sup>—would not be well served by state implementation. A federal solution is preferable.<sup>69</sup>

## F. The Problem

The *Martignon* court expressly reserved any opinion on Section 1101,<sup>70</sup> but the court’s consideration of the cases bearing on the relationship between the Copyright Clause and Commerce Clause, and the framework the court constructs in accordance with those cases for determining when to apply the limits of the Copyright Clause, “left open questions about the constitutionality of § 1101’s civil provisions.”<sup>71</sup>

The *Martignon* analytic framework can be summarized in three steps:

- [1] Congress exceeds its power under the Commerce Clause by transgressing the limitations of the Copyright Clause only when (1) the law it enacts is an exercise of power granted Congress by the Copyright Clause and (2) the resulting law violates one or more of the specific limits of the Copyright Clause.<sup>72</sup>
- [2]: the [Copyright C]lause is meant to give Congress the power to pass copyright laws.<sup>73</sup>
- [3]: [Copyright laws] allocate property rights in expression.<sup>74</sup>

Determining the constitutionality of Section 2319A under this analytic framework was fairly simple. Criminal statutes do not create any property rights (let alone property rights in expression) because they do not provide private individuals with a right to exclude, or a right to transfer any rights. Therefore, Section 2319A fails test (3) and is not a copyright law; since it is not a copyright law, it is not enacted pursuant to the Copyright Clause (*see* (2)); and since it is not enacted under the

Copyright Clause it is not a violation of the Commerce Clause (*see* (1)). Finally, the Commerce Clause provides an alternate basis for Section 2319A, so Section 2319A is constitutional.<sup>75</sup>

The court's analysis thus depends largely on the fact that Section 2319A is a criminal statute—a factor that obviously is not present with respect to Section 1101. There are also several other factors that might bring Section 1101 into conflict with *Martignon's* framework. As the court noted, Section 1101 creates a "civil cause of action" for certain activities in respect of live musical performances.<sup>76</sup> Furthermore, that civil cause of action arguably creates a legal ability to exclude certain activities, and those activities have a close relation to expression. In addition, it is possible to construe Section 1101 in a way that makes the ability to exclude these activities transferable.

In short, Section 1101 appears to "secure . . . Rights," and may also "allocate property rights in expression." There are also respectable arguments that those rights are exclusive and transferable. Therefore, under the court's reasoning (which did not include a detailed discussion on the issue of fixation under the Copyright Clause), Section 1101 may qualify as a "copyright law," rendering it subject to the limits of the Copyright Clause, including the Clause's limit that any rights must be provided only for "limited Times." The concern would then be that Section 1101 includes no time limit: if a performer discovers a bootlegger distributing a copy of a fixation of her performance, the performer (or her heirs) has a cause of action—even if the distribution occurs 200 years after the performance.

In Part III below we explore four solutions that might save Section 1101 from being held unconstitutional.

### III. Four Solutions

Unless doing so would be plainly contrary to Congress's intent, courts should construe statutes so as to avoid conflict with the Constitution<sup>77</sup> and with the United States' treaty obligations.<sup>78</sup> Below are four ways a court could achieve those goals with respect to Section 1101, and some observations on their relative merits.

Arguments A and B demonstrate that Section 1101 can be construed in ways that would render it not a "copyright statute" according to the criteria articulated in *Martignon*. Argument C focuses on the fact that *Martignon* left room for subsequent courts to add criteria to the definition of a "copyright law," and provides an additional criterion that Section 1101 fails. Argument D takes yet another approach: it argues that Section 1101 passes, not fails, *Martignon's* test for a copyright law (even with the condition added by Argument C), but nevertheless can be construed in a way that passes muster under the Copyright Clause.

#### A. Argument A: Section 1101 Is Not a "Copyright Law" Because It Does Not Create a "Right to Exclude"

*Martignon* held that a law comes within the Copyright Clause if it is a "copyright law," which it defined as a law that "allocate[s] property rights in expression."<sup>79</sup> The characteristics the court looked to in order to determine whether a statute creates property rights were excludability and transferability: whether the law created a private right to exclude,<sup>80</sup> and whether the right created was transferable.<sup>81</sup> Section 2319A failed both tests: it "does not grant the performer the right to exclude others from the performance—only the government can do that," and "[n]either may the performer transfer his or her interests under Section 2319A to another."<sup>82</sup>

The first argument in favor of Section 1101's constitutionality is that Section 1101 fails *Martignon's* test for a "copyright law" because it does not provide a "right to exclude": while Section 1101 does provide a private right of action against anyone who performs certain acts, that right does not exclude anyone from any discrete legal interest.

##### 1. The Private Rights Created by Section 1101 May Not Satisfy *College Savings Bank's* Definition of "Rights To Exclude"

In determining whether Section 2319A created "property rights in expression," *Martignon* incorporated the Supreme Court's holding in *College Savings Bank v. Florida Prepaid Postsecondary Education Expense Board* that "the right to exclude others" is "[t]he hallmark of a protected property interest."<sup>83</sup> At issue in *College Savings Bank* were the provisions of the Lanham Act that create a private right of action for false advertising.<sup>84</sup> The petitioner argued that it had a property right "to be free from a business competitor's false advertising about its own product," and a property right "to be secure in one's own business interests."<sup>85</sup> The Court rejected these arguments, holding that "[t]he Lanham Act's false-advertising provisions . . . bear no relationship to any right to exclude; and [respondent's] alleged misrepresentations concerning its own products intruded upon no interest over which petitioner had exclusive dominion."<sup>86</sup> The Court also held that, while "[t]he assets of a business unquestionably are property . . . business in the sense of *the activity of doing business, or the activity of making a profit* is not property in the ordinary sense—and it is only *that*, and not any business asset, which is impinged upon by a competitor's false advertising."<sup>87</sup>

Section 1101 can be analogized to the false-advertising provisions at issue in *College Savings Bank*. Like those provisions, Section 1101 provides a cause of action against anyone who performs certain acts, but it does not create "an interest . . . over which [the performer] has exclusive

dominion.” In *College Savings Bank*, the petitioner did not have “exclusive dominion” over the respondent’s statements concerning its own products: petitioner could not, for example, dictate to respondent which *truthful* statements respondent could make about its own products. For that matter, petitioner did not even have exclusive dominion over statements concerning *petitioner’s* own products: it is generally lawful to make (truthful) comments about other people’s products. Analogizing to Section 1101, one might argue that people are generally entitled to make audio recordings of sounds (and indeed the Copyright Act provides certain legal protections for some of those recordings); performers thus do not have exclusive dominion over an interest in recordings made by other people. The Lanham Act’s false advertising provisions select certain speech acts (“false descriptions” and “false representations”) from a much larger class of speech acts that a person engaged in commerce may perform, and declare those selected acts actionable. Likewise, Section 1101 selects certain recording acts (i.e., fixation of a live musical performance without the consent of the performer) from a much larger class of otherwise lawful recording acts, and declares those selected acts actionable.

Under this analogy, Section 1101 is a commercial tort law, but creates no property. It provides a right of action that relates to expressive activity, but its legal structure does not create an interest that is separate from the prohibition on certain acts. The fact that the performer is entitled to have bootleg copies destroyed<sup>88</sup> is not evidence that the performer has rights in any property; instead, the bootleg copies are merely fruits of an illegal act.<sup>89</sup>

Arguments can be made against this analogy, however. It can be argued that Section 1101 does create an interest over which the performer has exclusive dominion because Section 1101 provides the performer with exclusive dominion over her *performance*. The asset, or *res*, protected (the “interest,” to use *College Savings Bank’s* terminology) is the performance itself. Section 1101 provides a performer with a significant level of control over other persons’ access to, and use of, the performer’s live musical performance—especially when one considers that, by the nature of a performance, the performer is in control of whether the performance occurs in the first place. The performer has causes of action related to several activities: (1) fixing the sounds of the performance, (2) reproducing that fixation, (3) transmitting or otherwise communicating to the public the performance, or (4) distributing, selling, offering to sell, renting, offering to rent, or trafficking in copies of the fixation. The performer is entitled “to the remedies provided in sections 502 through 505” of the Copyright Act,<sup>90</sup> which include injunctions (17 U.S.C. § 502(a)), judgments for damages and profits (17 U.S.C. § 504), and, as noted above, destruction of copies (17 U.S.C. § 503(b)). So while it may

not be possible to stretch the concept of “an interest over which [person X] ha[s] exclusive dominion” to the point where it encompasses X’s interest in false statements made by Y about Y’s own products (as in *College Savings Bank*), it may be far less of a stretch to say that X has such an interest in a performance, when X herself created the performance, and when other people cannot legally perceive, fix, transmit, or reproduce the performance without X’s permission. The performer’s ability simply not to perform enables the performer to control whether would-be consumers of the performance will hear the performance; once the performer makes the decision to perform, Section 1101 extends the performer’s control over the performance to control of the typical commercial uses that consumers make of live performances. From this perspective, the Section 1101 rights do not look much different from traditional copyright rights: an author has the right to deny the world her work by keeping it in her head, and should she decide to fix it in a tangible medium of expression, the Copyright Act extends her rights in ways that allow her to control many of the typical commercial uses of a work.

## 2. The Commerce Clause Provides an Alternate Constitutional Basis

Returning to *Martignon’s* analytic framework: if Section 1101 rights are not “rights to exclude,” then Section 1101 does not create property rights, with the consequence that Section 1101 is not enacted under the Copyright Clause. A basis of constitutional authority other than the Copyright Clause would thus have to be found to undergird Section 1101. Following *Martignon*, *Moghadam* and *KISS Catalog*, a court could easily find such a basis in the Commerce Clause.<sup>91</sup> With that new basis, the constitutional rescue of Section 1101 would be complete.

However, as the discussion above illustrates, while there are arguments in support of the proposition that Section 1101 does not create “rights to exclude,” there are perhaps even better ones that it does create such rights. Argument A thus provides an uncertain basis on which to rest the constitutionality of Section 1101.

### B. Argument B: Section 1101 Is Not a “Copyright Law” Because Copyright Law Rights Must Be Transferable, and Section 1101 Rights Can Be Deemed to Be Non-Transferable

As discussed above (*see* Part II.D.), the characteristics *Martignon* looked to in order to determine whether a statute creates property rights were excludability<sup>92</sup> and transferability.<sup>93</sup> Argument A would disqualify Section 1101 from being a “copyright law”—and therefore an exercise of Copyright Clause authority—by showing how it might fail the excludability test. Argument B pursues a similar strategy with respect to transferability.

## 1. The Rights Created by Section 1101 Can Be Deemed Non-Transferable

By including the criterion of transferability in its analysis, *Martignon* tacitly acknowledged it as an essential element of a “property” right. Including this element comports with cases that construe the term “property” in the Fifth Amendment (which have consistently held that property includes the rights “to possess, use and dispose of it”<sup>94</sup>) and comports with economic literature on the subject as well.<sup>95</sup> Therefore, it can be argued that even if Section 1101 allocates rights to exclude, and those rights are rights in an intangible intellectual property called a performance, Section 1101 cannot be deemed to allocate *property* rights in expression if those rights are not transferable. This would mean (at least according to *Martignon*) that Section 1101 is not a copyright law, does not come within the Copyright Clause, and does not violate the Constitution.

Section 1101 itself contains no direct indication of whether the rights it creates are transferable, but it does contain indirect support for non-transferability. First, the ordinary rule that copyrights are assignable<sup>96</sup> would not apply, because Section 1101 is structured, linguistically at least, to avoid an interpretation that it creates “copyright” rights that are subject to “infringement.”<sup>97</sup>

Second, Section 1101 makes fixation, broadcasting, or distribution of fixations of a musical performance illegal only if done “without the consent of the performer.”<sup>98</sup> Section 1101 does *not* say “without the consent of the owner of the performance.” The lack of the word “owner” can be read as support for the arguments that (1) only the consent of the actual performer is relevant, so the performer is not free to transfer the right to consent; and (2) an “owner” of the private right of action apart from the person already granted control over the performance—i.e., the performer—is not contemplated.<sup>99</sup> In other words, there is no “owner” because there is no property to own. Contrasting Section 1101 with Section 106 of the Copyright Act provides further support: under Section 106, the person who holds the enumerated copyright rights is “the owner of copyright under this title”<sup>100</sup> (who is not necessarily the same person as the “author” of the copyrighted work).<sup>101</sup> A court could therefore hold that the overall structure of the Section demonstrates that the rights created under it are not transferable.<sup>102</sup>

Third, it could also be argued that non-transferability would comport with the purpose of the URAA, which was to implement the TRIPS requirement that performers be given the “possibility of preventing” the bootlegging of their live performances. Non-transferability would guarantee that the performer, and not some other party, has available to her the legal remedies to prevent or punish bootlegging. If the right is transferable, there may be situations where the performer does not, as a practical matter, have any protection from bootlegging.

Thus, even though, as William Patry points out,<sup>103</sup> the general rule is that private rights are alienable, a court could depart from that rule in this case to preserve the constitutionality of the provision.

## 2. The Commerce Clause Provides an Alternate Constitutional Basis

As with Argument A, this argument concludes that Section 1101 is not a copyright law and thus not within the scope of the Copyright Clause. It thus requires a basis of constitutional authority other than the Copyright Clause. As with Argument A, this basis could easily be found in the Commerce Clause.

## 3. Potential Problems

Argument B does not have the doctrinal problem Argument A has, but Argument B has a different problem: it probably does not resolve Section 1101’s international obligation compliance problems. The WPPT and the FTAs require that performers be granted an “exclusive right of authorizing” with respect to fixation of their live performances, as well as an “exclusive right of authorizing the direct or indirect reproduction of their performances fixed in phonograms, in any manner or form.”<sup>104</sup> Since the “exclusive right to authorize” presumably would include the right to authorize other people to exploit the work, it would seem that a non-transferable, non-property right would not satisfy the WPPT and the FTAs. By way of comparison, the phrase “exclusive right to authorize” is used in Article 9 of the Berne Convention with respect to the reproduction right for copyrightable works, and it would be startling indeed to learn that the Berne Convention did not require a property right that was (at least largely) transferable.

If Section 1101 is not sufficient to implement the WPPT and the FTAs, then Argument B’s constitutional victory would be pyrrhic because Section 1101 would have failed in its fundamental purpose of implementing the obligations with respect to performers. Obviously, this is a significant drawback to Argument B.

Second, even if Argument B were to satisfy the bootlegging provisions of the WPPT and FTAs, it might cause a violation of a different provision in the FTAs. Most of the FTAs cited above contain a provision stating that:

Each party shall provide that for copyright and related rights, any person acquiring or holding any economic right in a work, performance, or phonogram:

(a) may freely and separately transfer that right by contract. . . .<sup>105</sup>

The WPPT itself refers to the bootlegging rights as “economic” rights.<sup>106</sup> Thus, if an untransferable right to exclude others from fixation of a performance does create

an “economic right” in a “performance,” it will violate the FTA transferability provision; if, on the other hand, this untransferable right does not create an “economic right,” it will fail to satisfy the requirements of the WPPT (and, along with the WPPT, the identical language in the FTAs). Therefore, a court employing Argument B might bring Section 1101 into compliance with the Constitution, but not with the United States’ international obligations.

### C. **Argument C: The *Martignon* Test Should Require a “Writing”; Live Performances Are Not Writings, so Section 1101 Is Not a Copyright Statute**

We have seen that Arguments A and B construe Section 1101 so as not to create property rights in expression, but we have also seen that the United States’ compliance with the WPPT and the FTAs would be on surer footing if Section 1101 were construed to create full, transferable, property rights in expression. Arguments C and D therefore show how a court could hold Section 1101 constitutional even if Section 1101 does create property rights in expression.

*Martignon* focused on the test of “allocates property rights in expression” (and, within the term “property,” the two property-right minima of excludability and transferability). A court following *Martignon* would not, however, be limited to that test. As noted above, *Martignon* stated that although allocation of property rights in expression is a necessary condition for calling a statute a copyright law, “it is not a sufficient condition.”<sup>107</sup>

Argument C adds to the test a fixation requirement. That is, the new test for a “copyright law” would be a law that 1) allocates property rights in expressions, provided that 2) the expressions are “Writings,” and provided that 3) Writings means fixed expressions only. Since live musical performances are unfixed, Section 1101 would not be a “copyright law,” and therefore would be outside the Copyright Clause.

#### 1. ***Martignon*’s Statement Regarding Fixation Is Best Read as Dicta**

In order for a court to add fixation as a condition to *Martignon*’s test of a copyright law allowable under the Copyright Clause, it would first have to confront the fact that *Martignon* itself made the following statement: “Modern state copyright laws sometimes allocate rights for unlimited times, or they grant rights to unfixed works—evidence that duration and fixation requirements are not identifying characteristics of copyright laws.”<sup>108</sup> Given that *Martignon*’s test for that which comes within the Copyright Clause is that the law is a “copyright law,” this statement would appear to foreclose the use of a fixation requirement as a criterion for excluding a law from the definition of a copyright law.

There are good reasons, however, to avoid this reading. First, the statement regarding fixation was not

required for the outcome of the case. The court laid out the test for a copyright law as one that “allocates property rights in expression,” and, using that test, held that Section 2319A was not a copyright law because it did not provide the relevant exclusivity or transferability.<sup>109</sup> Fixation thus was not the basis for the court’s decision.

Second, the question of whether only fixed works come within the purview of the Copyright Clause is (surprisingly) an unresolved one. It has attracted a fair amount of academic debate, which has been phrased in terms of whether the term “Writings” in the Copyright Clause limits the scope of Congress’s authority under the Clause to only fixed works. The issue was not presented in *Martignon*, because the government stipulated at both the District and Appeals levels that Section 2319A could not have been enacted under the Copyright Clause.<sup>110</sup> While a few courts have made statements that imply that a Writing must be fixed, those statements were all made in cases that involved fixed works: the statements are thus all dicta.<sup>111</sup> And in what appears to be the only case in which a court has addressed the issue in statements that were not dicta, the court held that an unfixed work could indeed be a Writing.<sup>112</sup> The Supreme Court has stated that the term should be construed broadly,<sup>113</sup> and courts, including the Supreme Court, have accepted as Writings an array of subject matter that bears little resemblance to the ordinary meaning of the word: photographs,<sup>114</sup> sound recordings,<sup>115</sup> maps,<sup>116</sup> charts,<sup>117</sup> and books and other printed matter (as opposed to manuscripts).<sup>118</sup> Courts also take for granted (although there are no cases directly on point) that statues and other three-dimensional objects are “Writings.”<sup>119</sup> Leading treatise writers<sup>120</sup> (and other commentators<sup>121</sup>) split on the question, and policy arguments have been offered in favor of a fixation requirement<sup>122</sup> and against it.<sup>123</sup> Finally, the Copyright Act itself allows that there is such a thing as a “work[] of authorship *not* fixed in any tangible medium of expression” (but leaves protection of such works to state law).<sup>124</sup>

The issue of whether an unfixed musical performance could be a “Writing” is thus still very much an open question, and a difficult one. Presumably, the Second Circuit in *Martignon* would not have concluded that fixation is wholly irrelevant for determining compliance with the Copyright Clause without reviewing any of the relevant authorities. Instead, the court’s statement concerning fixation cites only a single statute from California.<sup>125</sup> Indeed, the court’s statement about duration and fixation is a rather curious analytical left turn: if the task at hand is to determine whether a *federal* statute complies with the limits of the Copyright Clause (i.e., “limited Times” and “Writings”), of what use is it to note that some *state* copyright laws—which of course were *not* enacted by the Congress pursuant to the Copyright Clause—do *not* observe those limitations?

The best reading of *Martignon's* statement that "fixation requirements are not identifying characteristics of copyright laws" is therefore that it is nothing more than an observation concerning "copyright laws" generally, made without regard to the possibility that the Copyright Clause might encompass only a subset of those "copyright laws."

## 2. If "Writings" Are Deemed to Include Only Fixed Works, Then Section 1101 Is Not a "Copyright Law" Because Its Subject Matter Is an Unfixed Work

Given that *Martignon* left open the possibility that additional conditions could be added to the definition of "copyright law," and given that the Copyright Clause by its terms provides authority to Congress only for statutes that grant exclusive rights to authors for their "Writings," an obvious candidate for addition is: that the law provide rights only in "Writings." A court that added this condition, and then sided with those who believe that Writings requires a fixation, could hold that Section 1101 does not provide rights in Writings because its subject matter (a live performance) is by its nature unfixed. On this reading, Section 1101 would therefore not be a "copyright law" under *Martignon*, and the inquiry would end, just as it did for Section 2319A. Under this approach, Congress could not regulate unfixed subject matter under the Copyright Clause; it would have to regulate such expression, if at all, under an alternative source of authority (which is provided here by the Commerce Clause). Section 1101 would thus be constitutional even if Section 1101 "allocated property rights in expression."

### D. Argument D: Live Performances Are "Writings," but a Time Limit Can Be Read Into the Statute

In Argument C, a court would have to take the position that "Writings" requires a fixation. Given the debate over that question, it is uncertain a court would do so. Argument D therefore provides a way for a court to hold Section 1101 constitutional even if a court were to hold that Writings does not require a fixation.

If "Writings" *can* include unfixed works, then a live musical performance can be a "Writing," and thus within the subject matter of the Copyright Clause. If a court held that Section 1101 created a "right to exclude" that was transferable, Section 1101 would truly be a "copyright law" as defined by *Martignon*. If that were the case, then Section 1101 would of course have a problem because it does not, on its face, provide an exclusive right for a "limited Time."

It has been argued that this apparent problem is illusory because a live musical performance is inherently limited in time: "When the lights fade out and the curtains fall, the show is over. As it is the performance itself that is the subject matter of protection, not the

bootleg recording, it is difficult to see how the statute fails the 'limited Times' requirement."<sup>126</sup> Under this view, the fixations and reproductions of that performance are fruits of an illegal act, not the subjects of protection.<sup>127</sup> There may therefore not be a limited times problem after all. Instead, the fact that the statute can be enforced perpetually would be deemed a problem related to a lack of a statute of limitations, an issue not ordinarily considered a "limited Times" problem.

On the other hand, Section 1101 does make certain acts illegal even when they occur long after the performance ends. For example, reproduction of an unconsented fixation would be illegal under Section 1101 even if the act of reproduction occurred 200 years after the performance. This makes the lack of a durational element look less like a statute-of-limitations issue, and more like a duration-of-protection issue.

There is thus a good argument that Section 1101 does, on its face, create perpetual protection for a form of intellectual property. Even so, Section 1101's constitutionality could be preserved by applying a common law time limit. This was done to avoid the same constitutional problem when it arose for unpublished works under the 1909 Copyright Act.<sup>128</sup> Section 11 of the 1909 Act provided copyright protection to certain registered but unpublished works, but the only time limit for protection prescribed in the 1909 Act stated that protection would extend until 28 years from the date of first publication—a date that would never come if the work remained unpublished.<sup>129</sup> In response to an argument that Section 11 violated the Constitution's requirement of "limited Times," the Ninth Circuit in *Marx v. United States* held that the term of protection for unpublished registered works would be calculated from the date of deposit.<sup>130</sup>

A court today could similarly impose a common law time limit on Section 1101. As to the specific measure of time the court should choose: there would be several options. The court could, for example, grant whatever term the performance would have had if it had been simultaneously recorded with the consent of the performer and therefore within copyright. Alternatively, since Section 1101 was intended to implement TRIPS Article 14(1) (even though, as we have seen, it was not in fact necessary for that implementation), the term could be the minimum term under TRIPS for performers' rights in general: 50 years from the end of the calendar year of the performance.<sup>131</sup>

Arguments C and D thus provide a more solid basis for U.S. compliance with the WPPT and the FTAs. The choice between them would be dictated primarily by whether a court agreed with, or disagreed with, the proposition that the word "Writings" in the Copyright Clause limits the scope of that clause to fixed works.

## IV. Conclusion

Arguments A and B would preserve the constitutionality of Section 1101 by construing it so that it does not create property rights. However, Argument A may rest on a misreading of *College Savings Bank*, and Argument B would probably create significant problems for the United States' compliance with the WPPT and certain FTAs. It would therefore be preferable for Section 1101 to be construed in a way that provides performers with a full property right in their performances; Arguments C and D could then be employed to defend the constitutionality of Section 1101.

As between Arguments C and D, the issue is whether unfixed works are constitutional Writings. We have not undertaken a full analysis of that question here, and so remain agnostic, other than to make the modest observation that as a policy matter it is preferable for the term to be defined in terms of copyright's broader policy objectives, as opposed to being defined by literalism.

We conclude with an observation regarding the distinction between the outcomes of *Martignon*, *Moghadam* and *KISS Catalog* and the analytic framework they established. These cases sidestepped the issue of whether the term "Writings" requires a fixation, either because the parties agreed that Congress could not have enacted Section 2319A (or Section 1101) under the Copyright Clause<sup>132</sup> or because the court assumed so *arguendo*.<sup>133</sup> The interesting question for the future is: what if that assumption is legally invalid? If constitutional Writings can include unfixed works, the constitutional taxonomy these cases labored to create may yield significantly different results in future cases.

## Endnotes

1. 492 F.3d 140 (2d Cir. 2007).
2. U.S. CONST. art. I, § 8, cl. 8 ("The Congress shall have the Power . . . To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.").
3. In this article, the term "treaty" is used for all international agreements, regardless of whether they qualify technically as a "treaty" or mere "agreement" for purposes of the U.S. Constitution or international law.
4. See WILLIAM F. PATRY, COPYRIGHT AND THE GATT: AN INTERPRETATION AND LEGISLATIVE HISTORY OF THE URUGUAY ROUND AGREEMENTS ACT 3 (1995).
5. *Id.* at 1-3.
6. Agreement on Trade-Related Aspects of Intellectual Property Rights, Apr. 15, 1994, Marrakesh Agreement Establishing the World Trade Organization, Annex 1C, LEGAL INSTRUMENTS—RESULTS OF THE URUGUAY ROUND vol. 31, 33 I.L.M. 81, 87 (1994).
7. TRIPS art. 14(1).
8. Pub. L. No. 103-456, 108 Stat. 4809, 4974. See generally PATRY, *supra* note 4, at 6.
9. S. Rep. No. 103-412, at 225 (1994); H.R. Rep. No. 103-826, pt. I, at 8 (1994).
10. 17 U.S.C. § 1101(a).
11. 18 U.S.C. § 2319A(a).
12. 175 F.3d 1269 (11th Cir. 1999).
13. *Id.* at 1276.
14. *Id.* at 1273-74 (citing *Goldstein v. California*, 412 U.S. 546, 561 (1973) ("Writings . . . may be interpreted to include any *physical rendering* of the fruits of creative or artistic labor") (emphasis added)); 1 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT ["NIMMER"] § 1.08[C][2], at 1-66.30 ("If the word writings is to be given any meaning whatsoever, it must, at the very least, denote some material form, capable of identification and have a more or less permanent endurance") (internal quotation marks omitted)).
15. 175 F.3d at 1274 (noting that "since a sound recording qualifies as a Writing in the constitutional sense . . . it is now clear that a writing may be perceptible either visually or aurally") (internal quotation marks and citations omitted); see also *Burrow-Giles Lithographic Co. v. Sarony*, 111 U.S. 53, 58 (1884) (recognizing photographs as copyrightable subject matter, and defining "Writings . . . as all forms of writing, printing, engraving, etching, etc., by which the ideas of the mind of the author are given visible expression").
16. 175 F.3d at 1274.
17. *Id.*
18. *Id.* at 1277 (citing *Heart of Atlanta Motel, Inc. v. United States*, 379 U.S. 241 (1964)).
19. 100 U.S. 82 (1879).
20. 790 F.2d 220 (2d Cir. 1986).
21. 405 F. Supp. 2d 1169 (C.D. Cal. 2005).
22. *Id.* at 1172 (citing *United States v. Morrison*, 529 U.S. 598, 607 (2000)).
23. *Id.* at 1173 (quoting *Moghadam*, 175 F.3d at 1276).
24. *Id.*
25. 455 U.S. 457 (1982).
26. *Id.* at 468-69.
27. 405 F. Supp. 2d at 1175-76.
28. 346 F. Supp. 2d 413, 420 (S.D.N.Y. 2004).
29. *Id.* at 420-22.
30. 492 F.3d at 146.
31. *Id.* at 149.
32. *Id.*
33. *Id.* at 150.
34. *Id.* at 151.
35. *Id.* (citing *College Savings Bank v. Florida Prepaid Postsecondary Educ. Expense Bd.*, 527 U.S. 666, 673 (1999) ("The hallmark of a protected property interest is the right to exclude others.")).
36. *Id.* at 151.
37. *Id.*
38. *Id.*
39. *Id.*
40. *Id.*
41. *Id.* at 152.
42. *Id.* at 149.
43. *Id.* at 150 (emphasis added).
44. TRIPS art. 14(1).
45. See, e.g., Berne Convention for the Protection of Literary and Artistic Works, Sept. 9, 1886, revised July 24, 1971, art. 9(1), 828 U.N.T.S. 221 ("exclusive right of authorizing the reproduction . . .").

46. TRIPS art. 14(2) (“Producers of phonograms shall enjoy *the right to authorize or prohibit* the direct or indirect reproduction of their phonograms”) (emphasis added). *See also, e.g.*, TRIPS art. 11 (“In respect of at least computer programs and cinematographic works, a Member shall provide to authors and their successors in title *the right to authorize or to prohibit* the commercial rental to the public of originals or copies of their copyright works” (emphasis added)).
47. The International Convention for the Protection of Performers, Producers of Phonograms and Broadcasting Organizations (1961). [“Rome Convention”].
48. *See* MIHÁLY FICSOR, GUIDE TO THE COPYRIGHT AND RELATED RIGHTS TREATIES ADMINISTERED BY WIPO AND GLOSSARY OF COPYRIGHT AND RELATED RIGHTS TERMS ¶ RC 7.1 – 7.2 (2003); *Report of the Rapporteur-General in RECORDS OF THE DIPLOMATIC CONFERENCE ON THE INTERNATIONAL PROTECTION OF PERFORMERS, PRODUCERS OF PHONOGRAMS AND BROADCASTING ORGANIZATIONS* 43 (1968); *Report of the Working Party No. II in RECORDS OF THE DIPLOMATIC CONFERENCE ON THE INTERNATIONAL PROTECTION OF PERFORMERS, PRODUCERS OF PHONOGRAMS AND BROADCASTING ORGANIZATIONS* 261-62 (1968); STEPHEN M. STEWART & HAMISH SANDISON, INTERNATIONAL COPYRIGHT AND NEIGHBORING RIGHTS ¶ 8.16. (1989).
49. Rome Convention art. 7.
50. DANIEL GERVAIS, THE TRIPS AGREEMENT: DRAFTING HISTORY AND ANALYSIS 97 (1998) (“The provision does not guarantee a direct right of action to performers”); *id.* at 96 (“The phrase ‘possibility of preventing’ was retained [from the Rome Convention art. 7.1(b) & (c)], instead of a full right to authorize or prohibit. It has been interpreted in the Rome Convention context as allowing States to implement the right in a variety of ways, including by criminal law.”). Gervais states, however, that it is “open to question” whether the same degree of latitude available under the Rome Convention is available under TRIPS, given that TRIPS art. 42 requires “civil judicial procedures concerning the enforcement of any intellectual property right covered by [TRIPS].” *Id.* at 98. On the other hand, as he points out, the exclusion of civil causes of action in this area of the Rome Convention might qualify as an “exception” that could be imported into TRIPS via TRIPS art. 14(6), and in any event it can be argued that “the use of the Rome Convention language ‘imported’ the meaning and traditional interpretation of the Rome Convention.” *Id.* at 98.
51. WIPO Performances and Phonograms Treaty, Dec. 20, 1996.
52. WPPT art. 6.
53. FICSOR, *supra* note 48, at ¶ RC 7.1.
54. The Dominican Republic–Central America–United States Free Trade Agreement, Aug. 2, 2005, art. 15.7.2 (2004), *reprinted in* H.R. Doc. No. 109-36, at 7 (2005). The texts of all FTAs cited in this article are available on the Web site of the Office of the U.S. Trade Representative: <http://www.ustr.gov>.
55. U.S.–Bahrain Free Trade Agreement, art. 14.6.2. (2004) (“the right to authorize or prohibit”), *reprinted in* H.R. Doc. No. 109-71, at 6 (2005).
56. U.S.–Morocco Free Trade Agreement, art. 15.7.2 (2004) (“the right to authorize or prohibit”), *reprinted in* H.R. Doc. No. 108-201, at 6 (2004).
57. U.S.–Australia Free Trade Agreement, art. 17.6.2 (2004) (“the right to authorize or prohibit”), *reprinted in* H.R. Doc. No. 108-199, at 6 (2004).
58. U.S.–Singapore Free Trade Agreement, art. 16.5.2 (2003) (“the exclusive right to authorize or prohibit”), *reprinted in* H.R. Doc. No. 108-100, at 6 (2003).
59. U.S.–Chile Free Trade Agreement, art. 17.6.4. (2003) (“the right to authorize or prohibit”), *reprinted in* H.R. Doc. No. 108-101, at 6 (2003).
60. U.S.–Oman Free Trade Agreement, art.15.6.2. (2006) (“right to authorize or prohibit”), *reprinted in* H.R. Doc. No. 109-118, at 6 (2006).
61. U.S.–Korea Free Trade Agreement, art.18.6.2. (2007) (“right to authorize or prohibit”).
62. U.S.–Panama Free Trade Agreement, art. 15.7.2 (2007) (“right to authorize or prohibit”).
63. U.S.–Colombia Free Trade Agreement, art. 16.6.5. (2006) (“right to authorize or prohibit”); *see also id.* art. 16.6.4. n.12 (“With respect to related rights in this Chapter, a right to authorize or prohibit, or a right to authorize, means an exclusive right.”).
64. U.S.–Peru Free Trade Agreement, art. 16.6.5. (2006) (“right to authorize or prohibit”); *see also id.* art. 16.6.4. n.12 (“With respect to related rights in this Chapter, a right to authorize or prohibit, or a right to authorize, means an exclusive right.”).
65. *See Keith V. Lee, Resolving the Dissonant Constitutional Chords Inherent in the Federal Anti-Bootlegging Statute in United States v. Moghadam*, 7 Vill. Sports & Ent. L. J. 327, 332 n.29 (2000); *see also* Craig W. Mandell, *Balance of Powers: Recognizing the Uruguay Round Agreement Act’s Anti-bootlegging Provisions as a Constitutional Exercise of Congress’s Commerce Clause Authority*, 52 J. Copyright Soc’y 673, 681 n.48 (2007) (citing 24 state statutes).
66. *Panel III: United States v. Martignon—Case in Controversy*, 16 Fordham Intell. Prop. & Ent. L.J. 1223 (2006) (hereinafter “Panel”) at 1228-29 (comment by W. Patry).
67. *Id.* at 1229 (comment by W. Patry).
68. *Id.* at 1230 (comment by W. Patry) (“A final concern was that if our trade negotiators, USTR, wanted to go around to other countries that were a source of bootlegs, it would be helpful for them to have on the books a strong federal statute, so they could avoid, in some ways, the Berne problem, that they could point to it and say, ‘Look, we have this federal statute here, and we would like you to enact something like that.’”).
69. *But see* NIMMER, *supra* note 14, at § 8E.02 (“The obligations of signatories to the Berne Convention may be discharged on the local rather than the national level. Nothing in the TRIPs protocol facially alters that doctrine. Given the simple device of deferring to state law, coupled with the centuries-old constitutional tradition of not according federal protection to unfixed productions, one might have expected that Congress would decline to alter federal law in this regard. One would thereupon be surprised.”).
70. 492 F.3d at 152 n.8.
71. ROBERT A. GORMAN & JANE C. GINSBURG, COPYRIGHT: CASES AND MATERIALS 5 (2007 Supp.).
72. 492 F.3d at 149.
73. *Id.* at 150.
74. *Id.*
75. *Id.* at 152-53.
76. *Id.* at 142.
77. *Public Citizen v. United States*, 491 U.S. 440, 465-66 (1989); *Edward J. DeBartolo Corp. v. Florida Gulf Coast Building & Constr. Trades Council*, 485 U.S. 568, 575 (1988) (“Where an otherwise acceptable construction of a statute would raise serious constitutional problems, the Court will construe the statute to avoid such problems unless such construction is plainly contrary to the intent of Congress.”).
78. *Murray v. The Charming Betsy*, 6 U.S. 64, 118 (1804); *United States v. Kay*, 359 F.3d 738, 756 (5th Cir. 2004); *Hong Kong and Shanghai Banking Corp. v. Simon*, 153 F.3d 991, 998 (9th Cir. 1998); *United States v. Palestine Liberation Organization*, 695 F. Supp. 1456, 1465 (S.D.N.Y. 1988).

79. 492 F.3d at 150.
80. *Id.* at 151 (citing *College Savings Bank v. Florida Prepaid Postsecondary Educ. Expense Bd.*, 527 U.S. 666, 673 (1999)).
81. *Id.* (“Neither may the performer transfer his or her interests under Section 2319A to another.”); *see also id.* (“Further, the Copyright Act, but not Section 2319A, gives the author of a work the right to transfer his rights in the work to another person or entity.”).
82. *Id.*
83. *Martignon*, 492 F.3d at 151 (quoting *College Savings Bank v. Florida Prepaid Postsecondary Educ. Expense Bd.*, 527 U.S. 666, 673 (1999)).
84. *College Savings Bank*, 527 U.S. at 670.
85. *Id.* at 672.
86. *Id.* at 673.
87. *Id.* at 675.
88. Section 1101(a) incorporates the remedies provided in Sections 502 through 505 of the Copyright Act, which include, in Section 503(b), “destruction or other reasonable disposition” as part of a final judgment or decree. *See* 17 U.S.C. § 503(b).
89. Compare Mandell, *supra* note 65, at 701; Comment, Brian Danitz, Martignon and KISS Catalog: Can Live Musical Performances Be Protected?, 15 Ford. Intell. Prop. Media & Enter. L. J. 1143, 1199 (2005).
90. 17 U.S.C. § 1101(a).
91. *Martignon*, 492 F.3d at 152-53; *Moghadam*, 175 F.3d at 1270; *KISS Catalog*, 405 F. Supp. 2d at 1173.
92. *Martignon*, 492 F.3d at 151 (citing *College Savings Bank v. Florida Prepaid Postsecondary Educ. Expense Bd.*, 527 U.S. 666, 673 (1999)).
93. *Id.*
94. *Loretto v. Teleprompter Manhattan CATV Corp.*, 458 U.S. 419, 435-36 (1982) (quoting *United States v. General Motors*, 323 U.S. 373, 378 (1945)) (emphasis added); *accord Conti v. United States*, 48 Fed. Cl. 532, 538 (Ct. Fed. Cl. 2001) (plaintiff’s fishing permit “lacks an important component of property rights: alienability”); *Skip Kirchorfer, Inc. v. United States*, 6 F.3d 1573, 1582 (Fed. Cir. 1993) (Navy’s permanent physical occupation of plaintiff’s warehouse constituted a taking for purposes of the Fifth Amendment because it interfered with the plaintiff’s right to dispose of the property, even though the warehouse was required to be removed from the land before the end of a lease period; for example, the occupation interfered with the plaintiff’s right to sell or relocate the warehouse, or dismantle it and ship it away, at the end of the lease). Although the facts of *Loretto* and *General Motors* involved physical property, the same analysis has been applied to alleged takings of non-physical property. *See, e.g., Roth v. Pritikin*, 710 F.2d 934, 939 (2d Cir. 1983) (“An interest in a copyright is a property right protected by the due process and just compensation clauses of the Constitution.”).
95. WILLIAM M. LANDIS & RICHARD A. POSNER, THE ECONOMIC STRUCTURE OF INTELLECTUAL PROPERTY LAW 12 (2003) (“[A] property right includes both the right to exclude others and the right to transfer the property to another.”); *see also* RICHARD A. POSNER, ECONOMIC ANALYSIS OF THE LAW 37 (5th ed. 1998) (“The creation of individual (as distinct from collective) ownership rights is a necessary rather than a sufficient condition for the efficient use of resources. The rights must also be transferable.”).
96. *See* 17 U.S.C. § 201(d)(1) (“The ownership of a copyright may be transferred in whole or in part by any means of conveyance or by operation of law, and may be bequeathed by will or pass as personal property by the applicable laws of intestate succession.”); 17 U.S.C. § 101 (definition of “transfer of copyright ownership”).
97. Section 1101’s phrase “to the same extent as an infringer of copyright,” *see* 17 U.S.C. § 1101(a), appears calculated to distinguish violations of Section 1101 from “infringements” of “copyright.”
98. 17 U.S.C. § 1101(a).
99. While one can posit an assignable right to sue that is dependent on the performer’s unassignable consent to the fixation, such a right would be bizarre: A could sell to B the right to sue any bootleggers of an upcoming performance by C, but that right would only be triggered if performer C failed to consent to the bootlegging. C would be in a position to determine whether A’s right had any value (for example, if she consented to all fixations it would have no value), yet C herself would have no legal interest in that right, and no duties connected with it (for example, no duty to withhold consent in good faith). Given that such a right would often be valueless as a practical matter, there is no reason to ascribe to Congress the intent to create such a right.
100. 17 U.S.C. § 106.
101. *See* 17 U.S.C. § 201(a) (“Copyright in a work protected under this title vests *initially* in the author or authors of the work.” (emphasis added)); *id.* § 201(d)(1) (“The ownership of a copyright may be transferred in whole or in part by any means of conveyance or by operation of law, and may be bequeathed by will or pass as personal property by the applicable laws of intestate succession.”).
102. Indeed, *Martignon* itself states that the performer may not transfer his or her interests under Section 2319A (whatever those interests may be). *See* 492 F.3d at 151.
103. Patry, *supra* note 4, at 12 (opining that Section 1101 rights may be assigned); *id.* at 12 n.38 (“No special provision permitting alienation was believed necessary, since free alienation of rights is the general rule.”).
104. *See supra* Part II.E.
105. *See, e.g., U.S. – Oman Free Trade Agreement*, art. 15.4.6 (2006).
106. WPPT art. 6.
107. 492 F.3d at 150.
108. *Id.* (citation omitted and emphasis added).
109. *Id.* at 150-52.
110. *See* 346 F. Supp. 2d at 423; 492 F.3d at 144.
111. *See Goldstein v. California*, 412 U.S. 546, 561 (1973) (“[A]lthough the word ‘writings’ might be limited to script or printed material, it may be interpreted to include *any physical rendering* of the fruits of creative intellectual or aesthetic labor.” (emphasis added)); *Burrow-Giles Lithographic Co. v. Sarony*, 111 U.S. 53, 58 (1884) (“By writings in [Clause 8, Section 8] is meant the literary productions of those authors, and congress very properly has declared these to include *all forms of writing, printing, engravings, etchings, etc.*, by which the ideas in the mind of the author are given visible expression” (emphasis added)); *The Trademark Cases*, 100 U.S. 82, 94 (1879) (“The writings which are to be protected are the fruits of intellectual labor, *embodied in the form of books, prints, engravings and the like*” (original emphasis removed; emphasis added)).
112. In *Columbia Broadcasting System v. DeCosta*, 377 F.2d 315 (1st Cir. 1967), the First Circuit held that an unfixed “character” can be within the scope of “Writings.” In order to avoid preemption of his state law claims, the plaintiff had argued that his unfixed persona was not a “Writing” because his creation, “being a personal characterization, was not reduced and could not be reduced to [an identifiable, durable, material] form.” *Id.* at 320. In response, the court stated: “[W]hile more precise limitations on ‘writings’ might be convenient in connection with a statutory scheme of registration and notice, we see no reason why Congress’s power is so limited.” *Id.* “In view of the federal policy of encouraging intellectual creation by granting a limited monopoly at best,” the court continued, “we think it sensible to say that the constitutional clause extends to any concrete, describable manifestation of intellectual creation; and to the extent that a creation may be

- ineffable, we think it ineligible for protection against copying *simpliciter* under either state or federal law.” *Id.* (Given the context, the word “concrete” here must mean “definite” and not “fixed in a tangible medium of expression.”) The implication of course is that if a “manifestation of intellectual creation” is concrete and describable, then it is within the Copyright Clause—regardless of whether it has even been fixed.
113. *Goldstein v. California*, 412 U.S. 546, 561 (1973) (Writings “[has] not been construed in [its] narrow literal sense but, rather, with the reach necessary to reflect the broad scope of constitutional principles.”); *see also* Jane C. Ginsburg, *No “Sweat”? Copyright and Other Protection of Works of Information After Feist v. Rural Telephone*, 92 Colum. L. Rev. 338, 375 (1992) (“Congress should enjoy substantial discretion in implementing its constitutional prerogative to ‘promote the Progress of Science.’ Congress’ determination of what endeavors constitute the ‘Writings’ of ‘Authors’ should be viewed as an exercise of fact-finding by the body most competent to evaluate the efficacy of the means chosen to promote the constitutional goal. Supreme Court review of these kinds of congressional findings therefore should be extremely deferential.”).
  114. *Burrow-Giles*, 111 U.S. at 58.
  115. *Goldstein v. California*, 412 U.S. at 561.
  116. *Burrow-Giles*, 111 U.S. at 57.
  117. *Id.*
  118. *Id.*
  119. *See generally* NIMMER, *supra* note 14, § 1.08[F]. This issue was waived in *Mazer v. Stein*. *See* 347 U.S. 201, 206 & n.5 (1954). Justice Douglas asked for reargument to consider this question, but no reargument was granted. *Id.* at 219-21.
  120. *Compare* NIMMER, *supra* note 14, § 1.08[C][2] (“If the word ‘writings’ is to be given any meaning whatsoever, it must, at the very least, denote some material form, capable of identification and having more or less permanent endurance.”) *and id.* § 8E.05[A] (“[I]f any doctrine of copyright jurisprudence has an unassailable pedigree it must be the proposition that the Copyright Clause empowers Congress to extend copyright protection solely to works fixed in a tangible form”) *with* 3 PAUL GOLDSTEIN, COPYRIGHT § 15.6.1 (2003) (“There is little doubt that the performances subject to protection [under Section 1101] are ‘writings’ in the constitutional sense for, beyond literalism, there is nothing in the mechanical act of fixation to distinguish writings from nonwritings.”). *See also* David Nimmer, *The End of Copyright*, 48 Vand. L. Rev. 1385, 1409 (1995) (“[N]o respectable interpretation of the word ‘Writings’ embraces an untaped performance of someone singing at Carnegie Hall.”).
  121. *Compare* Mandell, *supra* note 65, at 695 (adopting Nimmer’s view that fixation is required) *and* Peter A Jaszi, *Goodbye to All That—A Reluctant (and Perhaps Premature) Adieu to a Constitutionally-Grounded Discourse of Public Interest in Copyright Law*, 29 Vanderbilt J. Transnat’l L. 595, 602 (1996) (“Almost as straightforward is the conclusion that the Patent and Copyright Clause is unavailable as a source of justification for [Section 1101], because, by assigning rights in unfixed works, it extends protection to subject matter beyond the congressional powers deriving from that clause.”) *with* Paul J. Heald & Suzanna Sherry, *Implied Limits on the Legislative Power: The Intellectual Property Clause as an Absolute Constraint on Congress*, 2000 U. Ill. L. Rev. 1119, 1192 n.515 (2000) (“[Another] question is whether an unfixed musical performance should be considered a ‘writing,’ but we see nothing in the history or structure of the [Copyright] Clause to limit Congress’s authority to define types of creations. Just as the word ‘speech’ in the First Amendment has been interpreted broadly to include many things that are not oral utterances, the word ‘Writings’ is capable of a similarly broad construction without upsetting the expectation of the framers and ratifiers of the Constitution.”).
  122. Note, Joseph C. Merschman, *Anchoring Copyright Laws in the Copyright Clause: Halting the Commerce Clause End Run Around the Limits on Congress’s Copyright Power*, 34 Conn. L. Rev. 661, 681 (2002) (the fixation requirement is “a fundamental part of the deal between society and the author of a work. Society grants the author a monopoly over his creation on the condition that, after a limited time sufficient to encourage the creation of the work, the work will fall into the public domain, where every member of society can use it freely. Requiring that the work be fixed in some tangible medium of expression is fundamental to this bargain because without it there will be nothing to fall into the public domain after the monopoly has lapsed. In essence, without fixation, the author deposits nothing into the public domain.”); *id.* at 682-83 (fixation also “guarantees that only the expression of the idea at hand is protected and not the idea itself”); *id.* at 683 (“Without a constitutional fixation requirement, Congress could freely grant copyright protection to a vast array of unfixed works, such as speech.”).
  123. *See* Danitz, *supra* note 89, at 1189-90 (“‘[F]ixation’ is an increasingly murky and metaphysical concept as information is manipulated at near real-time through processes no more fixed than a quantum probability or a phosphorescent glow. As a result, it can provide only an arbitrary basis for delimiting where the copyright power begins and ends. Ironically, the insistence on permanence may itself place the foundations of copyright on shifting sands.”).
  124. *See* 17 U.S.C. § 301(b)(1) (emphasis added).
  125. *Martignon*, 492 F.3d at 150.
  126. *Danitz*, *supra* note 89, at 1199.
  127. *Id.*; *see also* Mandell, *supra* note 65 at 701.
  128. *See Marx v. United States*, 96 F.2d 204, 206 (9th Cir. 1938).
  129. *Id.*
  130. *Id.*
  131. TRIPS art. 14(5).
  132. *Martignon*, 492 F.3d at 144; *KISS Catalog*, 405 F. Supp. 2d at 1174.
  133. *Moghadam*, 175 F.3d at 1274 & n.9.

**At the time this article was drafted, both authors were attorneys in the Office of Policy and International Affairs at the United States Copyright Office. Mr. Metzger remains in that role; Mr. Kelton now works for Microsoft Corporation. The views expressed in this article do not represent the views of the Office of Policy and International Affairs, the Copyright Office, or Microsoft Corporation. Special thanks to Jane Ginsburg and Bill Patry for clarifying certain points, to David Carson, Robert Kasunic and Steven Tepp for their comments and suggestions, and to Simone King, Legal Assistant, Office of Policy and International Affairs, and Copyright Office summer intern Yana Bondar, and for their research assistance.**

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# Internet Gambling and Secondary Liability: Understanding the Contours of Criminal Liability

By Joseph V. DeMarco

Since the late 1990s, few areas of e-commerce have grown as exponentially as Internet gambling. It is a multi-billion dollar a year industry.<sup>1</sup> Yet, despite wildfire growth, Internet gambling, and, in particular, Internet sports betting, remains illegal under U. S. law. Among the several federal laws that regulate gambling,<sup>2</sup> a statute known as the Wire Wager Act makes it a felony for a bookmaker to take bets on-line, or to even transmit betting-related information across state or international boundaries.<sup>3</sup> Federal law also prohibits aiding and abetting violations of the Wire Wager Act, as well as conspiracies to violate the Act.<sup>4</sup> Notwithstanding these prohibitions, however, Internet bookmakers taking advantage of the borderless nature of the Internet and the fact that gambling is lawful in certain countries are flourishing in offshore locations such as Antigua, Belize, Costa Rica, the Isle of Man, and the Channel Islands.

Due to the difficulty of arresting site operators located overseas, neither the criminal prosecutions that have been brought nor the recent federal legislation adding prohibitions to Internet gambling<sup>5</sup> have slowed the proliferation of websites devoted to wagering. As a result, enforcement officials have increasingly been pursuing actions against persons and entities which, although not directly involved in the operation of such websites, are necessary to facilitate the operations of these websites. As described more fully below, these “secondary actors” have included radio stations, advertising companies, payment processors, and even “blue chip” financial institutions.

In order to understand why and how this has occurred, it is necessary to understand the Wire Wager Act; certain legal precedents established by the prosecution of Jay Cohen in the World Sports Exchange case;<sup>6</sup> and distinctive aspects of how Internet gambling websites function.

## The Wire Wager Act and the Cohen Prosecution

Known colloquially as the “Wire Wager Act,” Title 18, United States Code, Section 1084(a) provides that:

Whoever being engaged in the business of betting or wagering knowingly uses a wire communication facility for the transmission in interstate or foreign commerce of bets or wagers, or information assisting in the placement of bets or wagers on any sporting event or contest, or for the transmission of a wire communica-

tion which entitles the recipient to receive money or credit as a result of bets or wagers, or for information assisting in the placing of bets or wagers, shall be fined under this title or imprisoned not more than two years or both.<sup>7</sup>

In order to establish a violation of Section 1084(a), the government must prove four elements:

*First*, that the defendant was engaged in the business of betting or wagering—in other words, that unlike a casual bettor, he or she derived all or much of his income from the business of gambling. Thus, the statute typically has been enforced against bookmakers and those working for them in connection with taking bets or wagers on sporting events or contests.

*Second*, that the defendant transmitted, in interstate or foreign commerce, any one of the following types of material: (a) bets or wagers; (b) information assisting in the placement of bets or wagers; or (c) a communication that entitled the recipient to receive money or credit as a result of the bet or wager.

*Third*, that the defendant used a “wire communication facility” (which encompasses telephone as well as Internet communications)<sup>8</sup> to transmit these materials.

*Fourth*, that the defendant acted “knowingly.” Notable for present purposes, *U.S. v. Cohen* confirmed the prevailing view that the government need *not* prove that the defendant knew that he or she was violating the law.<sup>9</sup> Rather, all that must be shown is that the defendant knowingly (and not by accident or mistake) used a wire communications facility to engage in any one of the three transmissions described above.<sup>10</sup>

As far as accomplice liability is concerned, Title 18, United States Code, Section 2—the federal aiding and abetting statute—provides that:

Whoever commits an offense against the United States or aids, abets, counsels, commands, induces, or procures its commission, is punishable as a principal [and] [w]hoever willfully causes an act to be done which if directly performed by him or another would be an offense against the United States, is punishable as a principal.<sup>11</sup>

Although Jay Cohen, the defendant on trial in the World Sports Exchange case, was by his own admission

personally and directly involved in the operation of the Internet gambling website (he founded the website and was its president and CEO), the case also involved secondary actors—persons who had assisted Cohen in his efforts. These included advertising and public relations personnel whom Cohen retained to popularize and promote his website.<sup>12</sup> Although none of these individuals was directly involved in the operations of the website, several were clearly aware of the gambling-related nature and, as such, fit the definition of “aiders and abettors.” The government called these witnesses to trial as part of its case-in-chief to describe their interactions with Cohen, recount to the jury statements made by Cohen about his operations, and describe the work they performed on his behalf. None of these individuals were prosecuted for assisting Cohen. Rather, shortly prior to trial, the government entered into non-prosecution agreements with these secondary actors.<sup>13</sup>

Cohen was convicted at trial, and was sentenced to a term of imprisonment of 21 months. His conviction was upheld by the Second Circuit, which confirmed that the government need not establish that a defendant knew that he or she was breaking the law in order to be found guilty under the statute.<sup>14</sup>

### Operating a Gambling Website

The government’s vigorous post-*Cohen* recent enforcement efforts directed against secondary actors, however, are not explained merely by the low level of mental culpability for criminal liability to attach. Rather, it is the *existence and proliferation* of these secondary actors—whose activities are essential to the running of a successful gambling website and who operate in the open and are therefore “easy” to investigate—that makes enforcement operations against them possible and, from a prosecutor’s point of view, even attractive. For unlike traditional “brick-and-mortar” illegal gambling operations, which can be run from places as simple as the local street corner (and whose operators may need no more resources than a deck of cards and a notebook to record debits and credits), a successful Internet gambling website must employ the same resources as any sophisticated e-commerce website in order to compete with rivals and generate revenue. Such secondary support entities include, for example: software developers; electronic funds transfer agents; web hosting companies; website designers; Internet Service Providers; advertising agencies; and search optimization consultants, to name a few. Indeed, unlike the goal of many non-regulated forms of gambling (avoiding detection), the goal of an Internet gambling website is to generate as much attention (in the form of Internet “traffic”) as possible. Many are wildly successful.<sup>15</sup> Thus, gambling websites have advertised in newspapers, on radio, and in magazines; have conducted direct mail marketing campaigns; and have engaged in electronic mass marketing, both lawful and unlawful

(i.e., “Spam”). Moreover, as they have become ever more successful and have reached levels of economic scale and organizational complexity commensurate with the most popular web-based businesses, they have experienced the same operational needs as successful lawful e-commerce sites. With this growth, they have turned to the same vendors and providers that other e-commerce sites have used to support their operations—vendors which often are located in the United States and therefore can be brought into a courtroom in the United States.

This then is the enforcement landscape faced by a prosecutor: one in which primary actors are often beyond the reach of law enforcement, yet large numbers of secondary actors are within the prosecutor’s grasp. Given that some of these secondary actors perform important services for the gambling websites and are often corporations that have much to lose by virtue of a prosecution (or even an investigation), measured against the low level of culpability that must be proven for liability to attach under principles of aiding and abetting or conspiracy, secondary actors are appealing targets for enforcement actions.

### Recent Enforcement Actions

In recent years, the federal government has investigated and prosecuted numerous secondary actors whose activities supported those of the primary website owners and operators. For example, in September 2004, the United States Attorney’s Office for the Eastern District of Missouri settled forfeiture allegations totaling \$158,000 against three radio stations that knowingly received money from operators of Internet gambling websites to advertise those sites on local radio stations.<sup>16</sup> As the U.S. Attorney stated in announcing the settlement: “Offshore sportsbooks and on-line casino gambling operations which do business in the United States generally do so in violation of federal criminal laws [and] we will continue to investigate and pursue such activity, *as well as the promoters, aiders and abettors of such activity.*”<sup>17</sup> In the same vein, in January 2006, the federal government settled criminal charges against the owners of an advertising and media company that performed advertising services for gambling websites.<sup>18</sup> That company, Vulcan Sports Media, Inc., was fined \$7.2 million.<sup>19</sup> Moreover, in 2006, federal agents arrested Stephen Eric Lawrence and John David Lefebvre, the founders of Neteller PLC, an on-line payment services company (a so-called “e-wallet”) for violating the Wire Wager Act.<sup>20</sup> Both later pled guilty, and their company entered into a deferred prosecution agreement with the government under which they avoided prosecution by, among other things, agreeing to forfeit \$136 million to the government, ceasing gambling-related transactions with persons in the United States, and imposing controls to avoid violating U.S. anti-gambling laws.<sup>21</sup> Almost all of Neteller’s revenue (about 95 percent) was derived from facilitating payments to Internet gam-

bling websites.<sup>22</sup> In contrast, in March 2007, the federal government entered into a non-prosecution agreement with Electronic Clearing House, Inc. ("ECH"), a company involved in assisting the operations of e-wallets such as Neteller.<sup>23</sup> According to the government, ECH cooperated fully in the government's investigation; froze \$21 million of funds belonging to e-wallets, at the request of the government; and disgorged \$2.3 million in profits that it had derived from assisting e-wallets.<sup>24</sup> Beyond these public enforcement actions against secondary actors, press reports indicate that various investment banks involved in the funding of gambling-related websites have received subpoenas from prosecutors investigating their roles in raising funds for gambling websites.<sup>25</sup>

### Future Prosecutions?

Although actions to date give some indication as to the focus of the government's regulatory concerns, it is unclear what entities will be the subject of future enforcement actions. Would, for example, a software company that creates software used by sportsbooks be subject to enforcement action? Does it matter if it produced gambling-related software, or *any* software that is used by or useful to an Internet gambling website? What about software designed for permissible gaming activities such as fantasy football leagues, but which could be easily customized to facilitate illegal sports betting? What about the companies that market or distribute such software with knowledge of these facts? What about website designers, network engineers, search optimization consultants and other technical professionals who knowingly provide services to Internet gambling websites? What about accountants and lawyers? What about U.S.-based temporary agencies that employ contract-based telephone operators located outside the United States to answer "Help Desk" questions for website gamblers? What about operators of social networking sites based in the United States or U.S.-based Massive Multiplayer Role Playing Games where Internet gambling exists in virtual worlds but where money can (and does) change hands through out-of-network money exchange systems? Strict application of aiding and abetting principles would suggest that *all* of these persons and businesses could be criminally liable as accomplices, assuming that they had knowledge of the underlying facts about the nature of the gambling websites. Lacking any clear guidance from Congress or law enforcement officials, such persons and businesses operate in a "gray zone" in which a prosecutor could conceivably determine that aiding or abetting liability may very well be appropriate.<sup>26</sup>

In the face of such uncertainty, experience suggests that, although not legally dispositive, the following are some of the factors that a prosecutor might take into account in exercising his or her prosecutorial discretion in favor or against prosecution:

- **Nature of the subject:** Is the person or business engaged in activities whose stated mission is to assist Internet gambling companies? For example, contrast the posture of a consulting company whose main purpose is to advise the operators of Internet gambling websites on how to maximize revenue with that of an electric utility whose services—though clearly vital to the operation of a gambling website—are offered indiscriminately to everyone in a geographic area.
- **Nature of the work performed:** Is the person or business performing work that is critical to the core functioning of the Internet gambling operation, or merely incidental to that functioning? For example, is the business performing money transmission (or some equally important service) without which the gambling website could not function, or something more incidental to the website's operation, for example, such as supplying photocopiers or basic office equipment and furniture?
- **Client base and revenue stream:** Does the person or business have a large number of diverse clients only a few of whom are in the Internet gambling space, or does it have a small number of clients all of whom run gambling websites? Does it derive a significant percentage of its revenue from Internet gambling clients or a small or, even better, trivial amount of revenue?
- **Knowledge of illegality:** Did the person or business manager know or have any belief of wrongdoing? Although not an element that the prosecutor must prove, one who convinces a prosecutor that he or she truly had no idea of being involved in anything illegal, let alone criminal, theoretically faces a lower likelihood of being charged with a crime.<sup>27</sup>
- **Response to regulators:** When the subject became aware of the regulators' interest in its conduct, what was its response? Did it cooperate with law enforcement officials and remediate the complained-of conduct, or did it persist in conduct which it knew was of dubious legality?
- **Atmospheric factors:** Does the person or company have any prior criminal history? Is it the subject of any other related (or unrelated) investigations or enforcement actions? If a business, is it a model of corporate behavior? If an individual, how "sympathetic" is the person?

While determining the likelihood of prosecution in any area of crime is no easy task, making such predictions for secondary actors in the area of Internet gambling is made even more difficult by the extraordinary success of gambling sites, the consequent proliferation of secondary

actors that provide essential services to the sides, and the relatively low standard of proof for a successful prosecution. In the end, assessing the likelihood of criminal exposure requires counsel to engage in a highly fact-specific and fact-intensive analysis of these and other factors through the prism of legislation and regulation governing this rapidly evolving area of the law.

## Endnotes

1. See <http://www.cbsnews.com/stories/2005/11/17/60minutes/main1052420.shtml>.
2. See, e.g., 18 U.S.C. § 1952 (interstate travel in aid of racketeering enterprises (including enterprises involving gambling)); 18 U.S.C. § 1953 (interstate transportation of wagering paraphernalia); and 18 U.S.C. § 1955 (prohibiting operation of illegal gambling businesses). For its part, New York Law prohibits Internet gambling under the state constitution (Article I, § 9 of which bans all forms of gambling not specifically authorized by the Legislature) and § 225.05 of the Penal Law (which makes it a crime to advance or profit from any unlawful gambling activity, which is defined as gambling activity not specifically authorized by law). In addition, § 5-401 of the General Obligation Law provides that “all wagers, bets or stakes made to depend on . . . any gaming by lot or chance . . . or unknown or contingent event[s]” are unlawful.
3. 18 U.S.C. § 1084. Section 1084, which was enacted in 1961 as part of a series of anti-racketeering laws, complements other federal anti-bookmaking statutes. “The purpose of the statute is two-fold: (1) to assist the various States and the District of Columbia in the enforcement of their laws pertaining to gambling, bookmaking, and like offenses and [(2)] to aid in the suppression of organized gambling activities by prohibiting the use of wire communication facilities which are or will be used for the transmission of bets or wagers and gambling information in interstate and foreign commerce.” *United States v. McDonough*, 835 F.2d 1103, 1105 n.7 (5th Cir. 1988) (quoting legislative history).
4. 18 U.S.C. § 2 (aiding and abetting); 18 U.S.C. § 371 (conspiracy).
5. Title VIII of the Security and Accountability for Every Port Act of 2006 (or “SAFE Port Act”) is known as the Unlawful Internet Gambling Enforcement Act of 2006. Found at §§ 5361-5367 of Title 31 of the U.S. Code, it prohibits, among other things, the transfer of funds from financial institutions to Internet gambling sites, with limited exceptions.
6. *United States v. Cohen*, 260 F.3d 68 (2d Cir. 2001).
7. 18 U.S.C. § 1084.
8. A “wire communication facility” is defined in § 1081 of Title 18 as “any and all instrumentalities, personnel, services . . . used or useful in the transmission of writings, signs, pictures, and sounds of all kind by aid of wire, cable, or other like connection.” By its terms, it plainly covers Internet transmissions.
9. See *United States v. Cohen*, 260 F.3d 68, 75-76 (2d Cir. 2001).
10. See *id.*
11. Title 18 U.S.C. § 2.
12. See *United States v. Jay Cohen*, 98 Cr 434 (TPG) (S.D.N.Y. 1998), Trial Transcript (“Tr.”) at 376-419 (testimony of advertising company executive), 466-93 (testimony of public relations company executive).
13. See *id.* Government Exhibit (“GX”) 3505-2 (non-prosecution agreement between government and advertising executive), GX 3507-5 (non-prosecution agreement between government and public relations executive). As is typically the case, under those agreements the government granted immunity to the witnesses in exchange for their cooperation in the investigation and their truthful testimony at trial. It is axiomatic that such agreements are entered into only with persons exposed to criminal liability, here as aiders and abettors.
14. *Cohen*, 260 F.3d at 75-76.
15. Although individual gambling websites rarely disclose the scale of their operations, in the *Cohen* case, the evidence established that over the course of one 15-month period (when the business was just getting off the ground), Americans wire-transferred in excess of \$5.3 million to the sportsbook in order to wager. See *Cohen*, 260 F.3d at 70.
16. Press release “*St Louis Sports Radio Stations Pay Over \$158,000 to the Justice Department to Settle Forfeiture Allegations Involving the Stations’ Aiding and Abetting Illegal Offshore Gambling Activities*,” United States Attorney’s Office, Eastern District of Missouri, September 24, 2004.
17. See *id.* (emphasis supplied).
18. Press release “*Past Promotion of Illegal Gambling Costs the Sporting News \$7.2 Million*,” United States Attorney’s Office, Eastern District of Missouri, January 20, 2006.
19. *Id.*
20. See <http://www.usdoj.gov/usao/nys/pressreleases/January07/Neteller%20Arrests%20PR.pdf>.
21. See <http://www.internetnews.com/bus-news/article.php/3689631>.
22. See <http://www.usdoj.gov/usao/nys/pressreleases/January07/Neteller%20Arrests%20PR.pdf>.
23. See <http://www.usdoj.gov/usao/nys/pressreleases/March07/echonpapr.pdf>.
24. See *id.*
25. See <http://www.redherring.com/Home/20863> (discussing subpoenas served on HSBC, Dresdner Kleinwort, Credit Suisse, and Deutsche Bank).
26. Nor is the issue contained to the activities of sports-related websites. In testimony before Congress, at least one Department of Justice official has opined that *all* forms of wagering are regulated by the Wire Wager Act. See *Proposals to Regulate Illegal Internet Gambling, Including S. 627, to Prevent the Use of Certain Payment Instruments, Credit Cards and Fund Transfers for Unlawful Gambling Before the S. Comm. On Banking, Housing, and Urban Affairs, 108th Cong. 9 (2003)* (statement of John G. Malcom, Deputy Assistant Att’y Gen., Criminal Division, U.S. Department of Justice (asserting that any business that accepts any kind of bet or wager from customers located in the United States violates the Wire Wager Act). In addition, at least one New York Court has ruled that the Wire Wager Act covers gambling which is unrelated to sporting events. See *People v. World Interactive Gaming Corp.*, 714 N.Y.S.2d 844 (N.Y. Sup. Court 1999).
27. In light of significant publicity surrounding the application of secondary liability to those who facilitate the creation and operation of such websites, it will likely be difficult to persuade a prosecutor that one’s client was unaware of the potential for criminal sanctions.

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# Communications and Entertainment: At the Crossroads Looking Back 20 Years

By Barry Skidelsky

In the 20 years since the birth of the Entertainment, Arts and Sports Law (“EASL”) Section of the New York State Bar Association, technology has “converged” the intersections of communications and entertainment, both in business and law, giving birth to a brave new digital world that continues to unfold and offer promise and pain to content and distribution owners, consumers and lawyers.

Twenty years ago, radio and television broadcasters were able to own far fewer stations, both locally and nationally, than they are allowed to own under today’s more M&A-friendly Federal Communications Commission (“FCC”) regulatory regime. Back then, when a gallon of gas cost only about 75 cents, owners of broadcast media were mostly small privately held companies, rather than the large publicly traded corporations seen today, and stations in markets of all sizes faced far less competition for audience and advertisers.

Despite its key business advantage of being able to garner subscription revenue in addition to advertising revenue, cable was then struggling to emerge from its roots as a limited capacity community antenna television system that generally offered little more than retransmission of the then “big three” television networks, with far less original programming and other services, such as those offered today by modern cable multiple system operators.

Satellite dishes were rarer, bigger and more expensive than those of today. Most often they were located in rural and other areas that were underserved or not served at all by cable. Satellite service providers offered their customers limited video services similar to those then being offered by cable. Twenty years ago, nobody was offering today’s so-called “triple play” of bundled video, voice and data services.

Telephone companies, in the wake of the still fresh breakup of AT&T, were then focused on providing simple voice services over “twisted pairs” of copper wires. Wireless telephone service was emerging over devices that had the look and feel of bricks, limited to providing only simple voice communications services and lacking the advanced capabilities of today’s ever-growing crop of “smart phones.” Perhaps most importantly, 20 years ago, the Internet was not even a dial-up toddler.

Over the last two decades, the dramatic growth of the Internet (based on optical fiber and high-speed broadband technology initially found in the workplace and later in homes using DSL or cable modem service), along with an across-the-board shift from analog to digital technologies, helped transform all of these traditional channels of distribution, and in turn, the quantity and quality of the entertainment and informational content transmitted through them. The business models and applicable law struggled, and continue to struggle, to keep up.

## Communications

Communications law has changed dramatically over the last 20 years, primarily in what may be described as structural and content realms.

On the structural side, the main changes result from the Telecommunications Act of 1996 (“The 1996 Act”), which primary purpose was to increase competition across all communications sectors. Among the biggest changes were those felt by broadcasters.

Broadcast station ownership limits were substantially relaxed at both national and local levels. In conjunction with the FCC’s authorization of many new stations, this led to an unprecedented wave of consolidation by a few large publicly traded companies that now own valuable television station “duopolies” and radio station “clusters” in markets across the country. Foreign and cross ownership rules were likewise liberalized, allowing for example, Rupert Murdoch to own a daily newspaper and two television stations in New York City.

On the licensing front, comparative hearings (an arcane process by which the FCC decided among competing applicants seeking authority to construct new stations, which process was based on gender, minority status, local residence and other factors) were replaced by auctions that more simply awarded these authorizations to high bidders who collectively paid hundreds of millions of dollars to the federal government. In addition, broadcast license terms were lengthened and license renewal challenges became practically impossible for anyone to mount.

The 1996 Act also mandated that the broadcast television industry transition from analog to digital (“DTV”) service. This DTV “cut-over” date has been pushed back a few times, but as things now stand, all analog television service will stop on February 17, 2009, and your television set may then be obsolete.

Many television stations have already made the huge capital expenditures necessary for new digital equipment and are transmitting digitally with high-definition television (“HDTV”) programs that offer superior picture and sound. However, DTV technology allows not only HDTV, but also “multi-casting” (i.e., multiple program channels, not unlike cable), as well as data services.

Digital radio service has likewise already begun, despite the absence of a government-mandated transition for that segment of the broadcast industry. Digital technology in part enables radio to now offer superior sound quality, with AM stations sounding more like FM and FM stations sounding more like CDs.

In addition, radio has been quicker than television in adopting multi-casting, as where a contemporary rock radio

station may want to program oldies on a secondary channel. Many digital radio stations now also offer ancillary data services, such as real-time traffic updates linked to a car's GPS or navigation system, or simply scrolling text showing on a receiver's display panel a station's logo as well as the title and performer of a song currently playing or just played.

On the content regulation side at the FCC, the last two decades have also brought substantial changes to broadcasters. In 1987, the FCC eliminated its Fairness Doctrine policy and rules, which required television and radio stations to conduct formal ascertainment of community needs and interests in order to develop and air controversial viewpoints and other public interest programming.

Recently, pressure has been mounting for the FCC to reimpose specific public interest programming and reporting obligations in order to promote "localism" in the wake of heavy industry consolidation. Nevertheless today, marketplace forces instead rule, and stations are generally free to serve the "public interest" as they see fit. This may help explain not only the apparent disappearance of news from much of radio (with the exception of mostly AM news/talk stations), but also why much of television news today has become "fluff," or what some call "unfair and unbalanced."

Meanwhile, FCC enforcement activity has picked up the slack and increased most noticeably in two other programming related areas: sponsorship and indecency.

FCC sponsorship rules require that certain disclosures be made if money or other consideration is received for the broadcast of any particular program or program element. Problems with undisclosed payments made for the broadcast of video news releases on television and of music on radio recently made the headlines, along with a payola investigation conducted by the New York State Attorney General into the relationship between major record labels and radio groups.

Problems with obscene, indecent and profane language have also made headlines in the last few years. Until recently, this species of content regulation by the FCC was less of a problem for television than it was for radio (with the latter's "shock jocks" and the like). As this topic was covered in depth at the January 2005 EASL Annual Meeting,<sup>1</sup> I will not go into details here about these prohibited pronouncements relating to excretory and sexual activities or organs.

However, I will note that the Janet Jackson Super Bowl "wardrobe malfunction" (now also known as "Nipplegate") led to an appeal by CBS of the FCC's forfeiture order to the Third Circuit. Oral argument was heard in September 2007, but no decision has been released as of this writing. In November 2007, the FCC filed a petition for certiorari with the United States Supreme Court for review of a June 2007 decision by the Second Circuit in the Fox case, which rejected the FCC's view that "fleeting expletives" expressed by Bono in the Golden Globes award show are indecent. The Second Circuit chose to side-step the constitutional questions, however, basing its decision on a failure by the

FCC to adequately explain an apparent departure from precedent. As of this writing, the Supreme Court appeal request is pending.

September 2007 was also the 50th anniversary of a lower court ruling that Allen Ginsberg's classic poem "Howl" ("I saw the best minds of my generation destroyed by madness. . .") had redeeming social importance and was not obscene. To commemorate the occasion, non-commercial radio broadcaster Pacifica (owner of New York radio station WBAI, locus of the George Carlin "seven dirty words" broadcast that was heard by the Supreme Court), aired the poem on-line, but not on the air. Undoubtedly, this example of "chilled speech" considered that in June 2007 the FCC's authority to issue indecency fines increased to \$325,000 per occurrence.

Indecent speech regulation by the FCC, which is applied only to radio and television (and not to subscription-based cable or satellite), is said to be premised on a need to protect children. This is not the only area of FCC content regulation affecting children.

The 1990 Children's Television Act was enacted to increase the amount of so-called "core programming" and to decrease the amount of commercial advertising, all of which is targeted at children. Core programming is educational and informational television programming designed to meet the needs of children 16 years of age and younger. FCC rules require not only that it be provided, but also that it be at least 30 minutes in length and air between 7:00 a.m. and 10:00 p.m. in a regularly scheduled weekly program. Furthermore, the FCC limits commercial advertising during children's programs to 10.5 minutes per hour on weekends and 12 on weekdays for children 12 years and younger, with "program length commercials" (such as ads for Pokemon toys running inside a Pokemon television show) being particularly problematic.

Violence on television is another area of content regulation that has drawn attention in recent years. Television sets now contain what is known as a "V-Chip," which permits parents to allow or block programs that their children may watch, based on familiar movies ratings such as G or PG, and on new television-only ratings such as MA, AL and AC.

Another area of FCC content regulation that has emerged in the last few years worthy of mention involves sports programming blackouts and syndicated exclusivity, or syndex. Essentially, local television stations with exclusive sports or other programming rights may, under specified circumstances, compel cable systems (and since 2005, satellite providers) to delete "distant signals" carried by cable operators unless those distant television stations are "significantly viewed" in the local market (as determined according to a complex survey process).

Speaking of cable carriage, the 1992 Cable Act in part established a then new regulatory scheme involving what has come to be known as "must carry" and "retransmission consent." Essentially, the FCC must carry rules requiring cable systems to set aside a certain number of channels for commercial and non-commercial television stations eligible

to demand carriage by the cable system under a statutory license. Retransmission consent is a private contract that may be negotiated by any commercial radio or television station with the cable company. No radio or television station can be carried by a cable company absent either statutory license or agreement.

These days, retransmission consent is replacing must carry as the broadcasters' preferred path to pursue with cable operators. With enough leverage on the broadcaster side and enough channel capacity on the cable side, broadcasters have obtained from cable companies not only cash (which in part replaces the traditional but disappearing network compensation previously paid to local television station affiliates), but also cable carriage for their stations, as well as one or more additional cable channels to use. Many television stations are using such secondary cable channels as local weather channels, but the use of these extra channels, just like the terms of any retransmission consent agreement to be negotiated, is wide open.

## Entertainment

The still converging worlds of communications and entertainment are likewise wide open, with the key drivers being the Internet, wireless communications and related digital technologies. Foremost among traditional concepts of entertainment law, and experiencing its own growing pains while struggling to keep up with these technological changes, is the law of copyright.

At the crossroads of communications and entertainment law, two key copyright laws come quickly to mind. In 1995, the Digital Performance Right in Sound Recordings Act ("DPRSRA") was enacted, which created a new performance right and a complicated compulsory license for certain digital transmissions of sound recordings. Promoted by the Recording Industry Association of America ("RIAA"), the DPRSRA was soon amended by the Digital Millennium Copyright Act of 1998, which focused on webcasting.

Definitional, royalty and other challenges followed the passage of each piece of legislation, which in turn followed major technological developments—as the law always lags technology and likely never can catch up.

In 2004, the digital performance royalty arbitration panel, known as CARP, was replaced by a trio of judges known as the Copyright Royalty Board, but the fighting over digital royalties continues. Internet radio operators claim that these rules require them to pay royalties greater than 100 percent of their revenues.

Meanwhile, the RIAA just keeps on pushing, while loudly voicing concerns about piracy in the digital age or access and copy controls (collectively, digital rights management, or DRM). In October 2007, the first peer-to-peer copyright infringement case to go to trial in the United States found a Minnesota woman, Jamie Thomas, liable for statutory damages of \$220,000 to seven RIAA members, including all four major label groups, based on her sharing 24 songs on Kazaa. She recently filed an appeal with the U.S. District Court for the District of Minnesota, essentially

arguing that the statutory damages as applied are constitutionally excessive.

Piracy, however, needs to be kept in perspective. Many argue that the level of concern expressed by the RIAA and its film counterpart, the Motion Picture Association of America, is out of proportion to how well the music and motion pictures industries are doing. Instead, several believe that record and movie executives should focus on making it easier for consumers to purchase and use legitimate product by choosing to combat piracy in the marketplace rather than in court.

There are those who believe that copyright law will always be outdated, given the rapid technology-based shifts in music and other forms of entertainment. Obviously, there is much uncertainty. What does a grant of "Internet rights" mean? How meaningful is "territory" when applied to Internet distribution? Many such questions are now being, and will continue to be, raised both in and out of court. For example, in a case recently brought before the Southern District of New York by Twentieth Century Fox against Cablevision, the court held that a requested playback by a consumer at home sent to the cable company's remote storage digital video recorder (RS-DVR) is sufficiently "public" to be deemed a public performance.

## At the Crossroads, Looking Ahead

More questions will be raised going forward about how content will be accessed, monetized and used, as new technologies and business models proliferate. Issues such as time shifting, place shifting, commercial zapping and fair use may pale in comparison to more intriguing questions such as whether computers with artificial intelligence can be authors.

Content may not be king for much longer, as content and applications both increasingly take a back seat to consumer choice and convenience. Consumers are getting used to the idea of being able to watch or listen to what they want, when and where they want, and on whatever device they want.

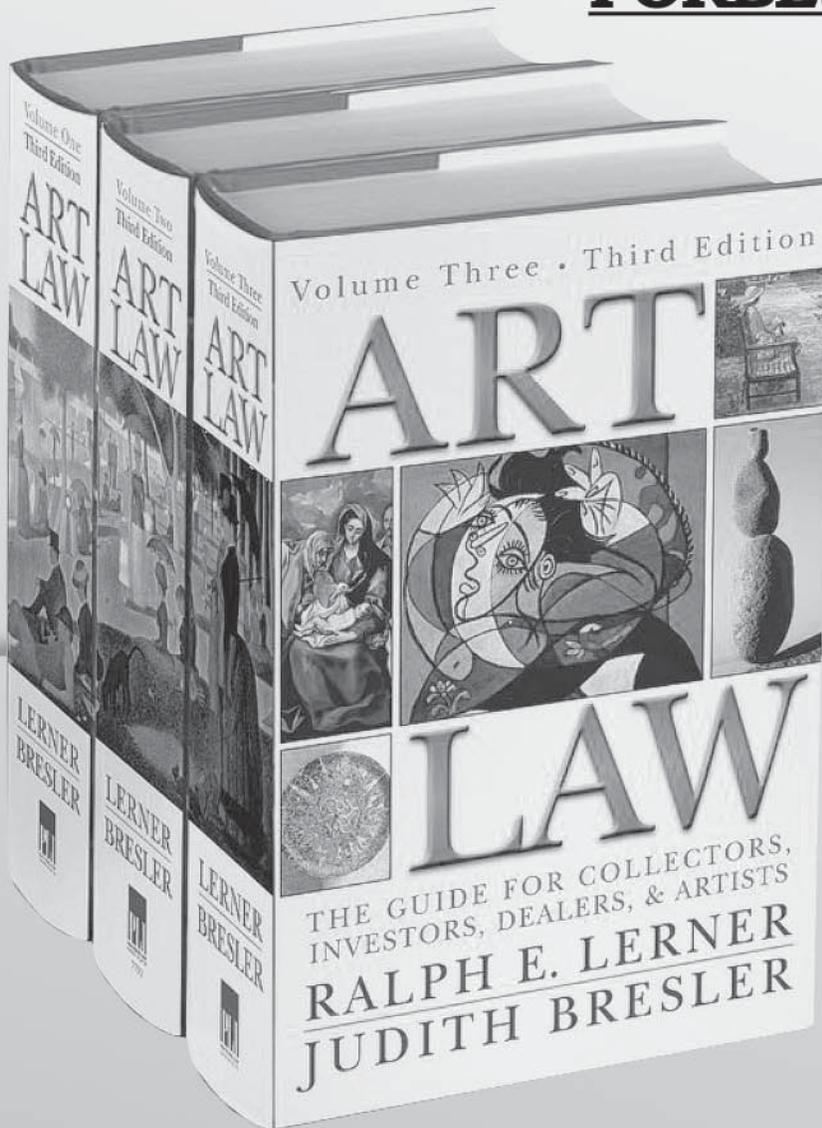
While the questions currently outweigh the answers, I can leave you with one solid piece of advice: buy stock in battery technology companies!

## Endnote

1. *Entertainment, Arts and Sports Law Journal*, Spring 2005, Vol. 16, No. 1, pp. 82-97.

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# Anatomy of a Copyright Infringement Claim

By Robert Clarida

The 1976 Copyright Act<sup>1</sup> (the “Act”) provides the owner of copyright in a work of authorship with certain exclusive rights, and certain legal remedies if a court finds those rights have been violated. Actions brought after January 1, 1978, are governed largely by the current Act, no matter when the work at issue was created, although various issues concerning copyright ownership, subsistence and duration of pre-1978 works continue to be governed by the 1909 Act. To prevail in an infringement action, a plaintiff must prove two things: ownership of a valid copyright and violation of one of the exclusive rights defined in the statute.

## I. Ownership of a Valid Copyright

Does the plaintiff own an exclusive right that the defendant might have violated?

### A. Identity of the Copyright Owner

Bear in mind that ownership of copyright is distinct from ownership of the material objects in which the work is embodied.<sup>2</sup> Merely owning a painting, or a master recording, or a print of a film does not give the owner any rights in the intangible work of authorship. As to the work of authorship, the chain of title must always begin with the initial owner or owners, and may also include assignees, exclusive licensees, devisees, statutory successors, and beneficial owners.

#### 1. Initial Ownership

There are three possible ways a plaintiff might be an “owner” *ab initio*, with standing to bring an infringement claim: as individual author, as a joint author, or as the employer in the case of a work made for hire.<sup>3</sup> To determine *initial* ownership of *foreign* works, look to the law of the source country.<sup>4</sup>

#### 2. Acquired Ownership

A plaintiff might also have *acquired* the entire copyright, or any exclusive right under the copyright, per § 201(d)(2) of the Act, from the initial owner, by one of the following four means:

- as an assignee or exclusive licensee under a signed writing;<sup>5</sup>
- as a statutory successor of renewal-term rights;<sup>6</sup>
- as a successor to renewal-term rights under *Stewart v. Abend*;<sup>7</sup> or
- by will or intestate succession.<sup>8</sup>

To determine the validity and effect of *transfers* of ownership in foreign works, it is unclear whether U.S. or foreign law should apply.<sup>9</sup>

### 3. Beneficial Ownership

In rare instances, a plaintiff might also assert standing as a “beneficial owner” of copyright. The Act provides at § 501(b) that a “legal or beneficial owner of copyright” has standing to bring a claim. “Beneficial owner” is a vague term, seldom subject to much discussion by the courts, but it generally applies to parties with an equitable interest in a copyright legally owned by another.

### 4. Individual Author: Termination and Recapture

The person who “holds the pencil” and makes the creative decisions is the author; one who merely gives suggestions or direction, or approves/rejects the final product, is not an author.

For works of individual authors, grants of renewal term rights in pre-1978 works are void under *Stewart* if the author does not live into the start of the renewal term. All pre-1978 grants are also terminable by statutory heirs after the 56th and 75th years under § 304 of the Act, and post-1978 grants *by the author* are terminable by the statutory heirs after 35 years, under § 203. All termination and recapture pertains only to U.S. rights, not foreign rights.

### 5. Joint Authors: Termination and Recapture

When two or more persons each contribute separately copyrightable expression to the work *and* intend that their work will be a joint work, they are joint authors.<sup>10</sup> Each joint author can grant non-exclusive licenses without approval of the other(s), subject only to a duty to account to the other joint author(s). Exclusive licenses, by contrast, must be agreed to by all joint authors. All joint authors share equally in the proceeds of exploitation unless a contrary agreement is set forth in a signed writing.<sup>11</sup>

Intent to create a joint work can be inferred from various indicia, including creative control, credit, and the parties’ relative financial benefit.<sup>12</sup> Where the nature of a particular medium is inherently collaborative, such as comic books, each party need not always contribute separately copyrightable expression.<sup>13</sup>

As with works of individual authorship, grants of renewal term rights in pre-1978 works are void under *Stewart v. Abend* if the author does not live into the start of the renewal term. All pre-1978 grants are also terminable

by statutory heirs after the 56th and 75th years under § 304 of the Act, and post-1978 grants *by the author* are terminable by the statutory heirs after 35 years, under § 203. All termination and recapture affects only U.S. rights, not foreign rights.

## 6. Work Made for Hire

An employer is deemed the legal “author” of works made for hire, per § 201(b) of the Act. Different tests apply to pre- and post-1978 works.

### a. Pre-1978

If the parties’ employment relationship commenced before 1978,<sup>14</sup> the party at whose “instance and expense” the work was prepared is deemed the author, even without a formal employment relationship.<sup>15</sup> Control over the manner and means of creation is also an important factor.<sup>16</sup>

### b. Post-1978

If the parties’ employment relationship commenced after January 1, 1978, § 101 of the Act permits work-made-for-hire ownership by the employer in only two situations.

#### (1) Works Created by Employees Within the Scope of Their Employment

The factors for determining employment status were spelled out by the U.S. Supreme Court in *Community for Creative Non-Violence v. Reid*.<sup>17</sup> The *Reid* factors are the following:

- the hiring party’s right to control the manner and means by which the product is accomplished;
- the skill required;
- the source of the instrumentalities and tools;
- the location of the work;
- the duration of the relationship between the parties;
- whether the hiring party has the right to assign additional projects to the hired party;
- the extent of the hired party’s discretion over when and how long to work;
- the method of payment;
- the hired party’s role in hiring and paying assistants;
- whether the work is part of the regular business of the hiring party;
- whether the hiring party is in business;
- the provision of employee benefits; and
- the tax treatment of the hired party.

The most important of these is W-2 tax treatment.<sup>18</sup>

#### (2) Works Created by Independent Contractors

Work created by an independent contractor as a “specially ordered or commissioned work” is considered a work for hire, but only if the work falls into one of nine statutory categories spelled out in § 101 of the Act, and the parties agree in a signed writing that the work is made for hire. In some circuits, notably the Seventh Circuit, this signed writing must precede creation of the work.

The statutory categories enumerated in § 101 are the following

- as a contribution to a collective work;
- as part of a motion picture or other audiovisual work;
- as a translation;
- as a supplementary work
- as a compilation;
- as an instructional text;
- as a test;
- as answer material for a test; or
- as an atlas.<sup>19</sup>

### c. Termination and Recapture

For both pre- and post-1978 works, termination and recapture under *Stewart v. Abend*, § 304, and § 203 are inapplicable. Work-for-hire rights can never go “back” to the human author’s estate because the employer is legally the author.

## B. Copyrightable Subject Matter

Assuming the plaintiff owns an exclusive right in *something*, to what extent is it copyrightable?

### 1. Original Work of Authorship

§ 102(a) Copyright protection subsists . . . in original works of authorship fixed in any tangible medium of expression.

Authorship requires *independent creation* and a *modicum of creativity*.<sup>20</sup> It includes “selection and arrangement” of preexisting facts or materials, but not merely “sweat of the brow.” “Independent creation” simply means not copied from another work. “Modicum of creativity” is an extremely low threshold.<sup>21</sup>

Categories of protectible works under § 102(a) include the following:

- literary works;

- musical works, including any accompanying words;
- dramatic works, including any accompanying music;
- pantomimes and choreographic works;
- pictorial, graphic and sculptural works;
- motion pictures and other audiovisual works;
- sound recordings; and
- architectural works.

However, a protectible work is one “fixed in a tangible medium of expression.” Improvised music and spontaneous conversation, for example, are not copyrightable until fixed in tangible medium, and such fixation must be more than “merely transitory,” although this criterion is easily satisfied, such as by loading the work into RAM computer memory.<sup>22</sup>

## 2. Limiting Doctrines: Merger, Functionality, Scènes a Faire

Under § 102(b) of the Act, in no case does copyright protection for an original work of authorship extend to any idea, procedure, process, system, method of operation, concept, principle, or discovery, regardless of the form in which it is described, explained, illustrated, or embodied in such work.

### a. Merger

When an underlying idea, procedure, process, system, method of operation, concept, principle, or discovery can be expressed effectively in only one or very few ways, the idea and expression are said to merge. As a result, the author of such expression will not be able to show infringement on the basis of substantial similarity when his or her expression is copied by a person expressing the same idea. Alternatively, such expression simply may be held non-copyrightable.<sup>23</sup>

### b. Functionality

If the work is embodied in a “useful article,” copyright will only exist to the extent that the work contains aesthetic features that are physically or conceptually separable from the utilitarian aspects.<sup>24</sup>

### c. Scènes a Faire

Some “stock” settings, characters, or actions may be necessary to evoke literary, dramatic, or historical ideas or events, so that they will not be copyrightable or, alternatively, their uses will not constitute evidence of substantial similarity to other works that include them.<sup>25</sup>

## C. Duration, Notice and Renewal

Assuming the plaintiff owns an exclusive right in something, and it is copyrightable, is that copyright still subsisting?

Date of Work	When Protection Attaches	First Term
Created in 1978 or later	Upon fixation	Unitary term of life plus 70 (or, if anonymous or pseudonymous, or work for hire, 95 years from publication or 120 years from creation, whichever is shorter)
Published* or registered 1964–1978, or for foreign works, 1923–1978	Upon registration or publication with notice (if U.S. work was first published without notice, work is in the public domain)	95 years (28 plus automatic 67-year renewal)
Published or registered 1923–1963	Upon registration or publication with notice	28 years (first term) 67 years, if renewal was made before end of first term (renewal term)
Published or registered before 1923	Upon registration or publication with notice	Work is now in the public domain; although term of protection is now 95 years for 1909-Act works, works from 1922 and earlier were already in the public domain in 1998 when the Sonny Bono Act was passed, and the Act does not revive them. Thus, status cannot be determined simply by counting back 95 years from present date.
Created but never published or registered before 1978	Upon creation	Unitary term of at least life plus 70; earliest possible expiration is December 31, 2002, if the work remains unpublished. If the work was published prior to December 31, 2000, the earliest possible expiration is December 31, 2047

\*In order to start the term running, the publication must be authorized by the copyright owner. An unauthorized publication, even with notice, has no legal effect. Publication is not defined in the Act, but generally encompasses distributing copies to the public, or offering to do so, without restriction as to the identity of recipients or the use they make of the work. Cf. *Lish v. Harper’s Magazine Found.*, 807 F. Supp. 1090 (S.D.N.Y. 1992) (no publication found where work was distributed only to members of author’s creative writing class).

## D. Other Formalities

Assuming the plaintiff has subsisting exclusive rights in copyrightable expression, can a claim be filed?

### 1. Registration

If the work is a *U.S. work*, the copyright owner must obtain a registration certificate before any federal court can assert subject matter jurisdiction.<sup>26</sup> If the work is not already registered, a certificate can be obtained on an expedited basis for an additional filing fee. If the work is a *Berne Convention* work, the copyright owner need not obtain a registration certificate before filing suit. A registration certificate is also *prima facie* evidence of copyrightability and of all facts stated in the certificate, if the certificate is obtained within five years of publication.<sup>27</sup>

### 2. Recordation

Recordation of assignments and exclusive licenses is no longer necessary. Assignees and exclusive licensees can bring suit without recording transfer documents with the Copyright Office, but will be required to produce a signed writing<sup>28</sup> as evidence of ownership.

## II. Violation of a § 106 Right

Assuming the plaintiff is the owner of a valid copyright, has the defendant violated any of the plaintiff's exclusive rights under § 106?

### A. Defining Exclusive Rights Under § 106

Section 106 of the Act grants the copyright holder the exclusive rights to do, and to authorize, the following.

#### 1. Reproduction

Reproduction is defined as follows under § 106(1): "to reproduce the copyrighted work in copies or phonorecords." According to § 101 of the Act, "[c]opies' are material objects, other than phonorecords, in which a work is fixed by any method now known or later developed, and from which the work can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device."

"Phonorecords' are material objects in which sounds, other than those accompanying a motion picture or other audiovisual work, are fixed by any method now known or later developed, and from which sounds can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device."<sup>29</sup>

#### 2. Derivative Works

Under § 106(2) of the Act, the owner of the copyright has the exclusive right to prepare derivative works based upon the copyrighted work. Section 101 defines a "derivative work" as one

based upon one or more preexisting works, such as a translation, musical arrangement, dramatization, fictional-

ization, motion picture version, sound recording, art reproduction, abridgement, condensation, or any other form in which a work may be recast, transformed, or adapted. A work consisting of editorial revisions, annotations, elaborations, or other modifications which, as a whole, represent an original work of authorship, is [also] a "derivative work."

Under § 103(b) of the Act, copyright in a derivative work protects only the elements original to the work and does not affect in any way the copyright status of the preexisting material.<sup>30</sup>

#### 3. Distribution

Under § 106(3) of the Act, "distribution" is "to distribute copies or phonorecords of the copyrighted work to the public by sale or transfer of ownership, or by rental, lease, or lending."<sup>31</sup>

#### 4. Performance

A "performance" is defined by § 106(4) of the Act as to perform publicly "literary, musical, dramatic, and choreographic works, pantomimes, and motion pictures and other audiovisual works." Note that, with the exception of digital audio transmissions, the copyright owner in a sound recording does not have a performance right.<sup>32</sup> Section 101 further states:

To "perform" a work means to recite, render, play, dance, or act it, either directly or by means of any device or process, or in the case of a motion picture or other audiovisual work, to show its images in any sequence or to make the sounds accompanying it audible.

\* \* \*

To perform or display a work "publicly" means—

- (1) to perform or display it at a place open to the public or at any place where a substantial number of persons outside a normal circle of a family and its social acquaintances is gathered; or
- (2) to transmit or otherwise communicate a performance or display of the work to a place specified by clause (1) or to the public, by means of any device or process, whether the members of the public capable of receiving the performance or display receive it in the same place or in separate places and at the same time or at different times.<sup>33</sup>

## 5. Display

Under § 106(5) of the Act, the copyright owner has an exclusive right to display publicly literary, musical, dramatic, and choreographic works, pantomimes, and pictorial, graphic or sculptural works, including the individual images of a motion picture or other audiovisual work. Under § 101 “[t]o ‘display’ a work means to show a copy of it, either directly or indirectly or by means of a film, slide, television image, or any other device or process or, in the case of a motion picture or other audiovisual work, to show individual images nonsequentially.”

“Publicly” has the same meaning for display as for performance.

## 6. Performance of Sound Recordings by Digital Audio Transmission

Under § 106(6) of the Act, the owner of copyright in a sound recording has an exclusive right to perform the sound recording publicly by means of a digital audio transmission. A “digital” transmission is defined under § 101 as “a transmission in whole or in part in a digital or other non-analog format.” This right was established to protect copyright owners in the face of emerging performance and distribution formats such as digital audio-on-demand and pay-per-listen, which allow consumers to obtain (and record) a wide range of high-quality recordings without purchasing any material object.

## 7. Rights of Attribution and Integrity for Certain Works of Visual Art

Under § 106A of the Act, the creator of a certain work of visual art has the right to “claim authorship of that work,” to “prevent the use of his or her name as the author of any work of visual art which he or she did not create,” to “prevent the use of his or her name as the author of a work of visual art in the event of a distortion, mutilation or other modification of the work which would be prejudicial to his or her honor or reputation,” to prevent any such distortion, mutilation or modification, and to “prevent any destruction of a work of recognized stature.” The statute provides specifically that these rights are not applicable in the case of works made for hire, and it has been held that site-specific artworks are also ineligible for protection.<sup>34</sup>

### B. Establishing Violations of § 106

Violations of display, performance and distribution rights can occur through display, performance or distribution of derivative works or of the plaintiff’s own work. The plaintiff need only show violation of one § 106 right; the plaintiff obtains no additional remedies if multiple § 106 rights are violated by the defendant’s acts.

Violations of reproduction and derivative work rights require a showing of *actual copying* and *substantial similarity*.

## 1. Actual Copying

“Actual copying” is usually established by showing *access* and *probative similarity*.<sup>35</sup>

“Access” is simply a “reasonable opportunity” to see or hear the plaintiff’s work. This can be shown by specific facts—for example, the plaintiff’s work was on display at a trade show attended by the defendant—or by the “widespread dissemination” of the plaintiff’s work. Mere “corporate receipt” of the plaintiff’s work is not sufficient.

“Probative similarity” is a resemblance between the parties’ works that is not likely to have arisen by coincidence, and thus indicates copying rather than independent creation. Common errors or unusual details are thus often sufficient to show actual copying, even if they do not constitute infringement.

## 2. Substantial Similarity

Substantial similarity of *protectible expression* constitutes infringement. The amount of copied expression need only be more than *de minimis*.<sup>36</sup> In *Merton Co.*, the court noted:

Defendants are correct that if one starts with an infringing copy and makes enough changes eliminating the copied expression, the object eventually will cease to infringe. This may occur even before the last copied vestige has disappeared *if the copied elements have been reduced to de minimis proportions*. But, on the other hand, a defendant does not escape infringement merely by showing that there are differences between his work and the plaintiff’s. If sufficient portions of the work infringe, it is an infringement notwithstanding absence of similarity in overall appearance.<sup>37</sup>

Uncopyrightable elements are usually eliminated before comparing the parties’ works, but the original *selection* and *arrangement* of uncopyrightable elements should not be filtered out.<sup>38</sup>

## 3. Special Infringement Considerations

Certain types of works require special consideration. In software, for example, substantial similarity of computer software is determined by the *abstraction/filtration/comparison* standard.<sup>39</sup> The test is heavily dependent on expert testimony, and often protects only against very close copying of literal code.<sup>40</sup> Works of visual art are often analyzed under a “total concept and feel” standard, which protects the overall appearance of a work as well as its specific details.<sup>41</sup> If the work incorporates large amounts of public domain material, similarity might be judged by a “more discerning observer” standard, rather

than an “average lay observer” test.<sup>42</sup> For compilations, proof of substantial similarity requires very close copying of the plaintiff’s original selection and arrangement.<sup>43</sup>

### C. Secondary Liability

If a third party violates one of the copyright owner’s exclusive rights, the defendant might be secondarily liable for the infringement under one of the following two theories.

#### 1. Contributory Infringement

Contributory infringement requires a showing that the defendant had actual or constructive *knowledge* of the third party’s infringement, and *substantially participated* in it, such as by providing the facilities or means by which the infringement was carried out.<sup>44</sup> Contributory infringement can also be established where the defendant *actively induced* the third party to infringe.

#### 2. Vicarious Liability

Vicarious liability requires a showing that the defendant derived a *financial benefit* from the infringement and had the *right and ability to supervise and control* the infringer’s conduct.<sup>45</sup>

### III. Defenses and Exemptions

Assuming the plaintiff owns a valid copyright and the defendant has violated one or more of the plaintiff’s rights under § 106 of the Act, are any defenses available?

#### A. Specific Exemptions

The statutory exemptions listed below are subject to detailed requirements and limitations, and seldom apply beyond specific narrow contexts of use such as in classroom instruction, in libraries, and by broadcasters. The most broadly applicable is § 109, which allows people to sell or display physical copies of works, such as paintings or used books, without violating the distribution right.

- § 108: Libraries are entitled to make certain *reproductions* and *distributions* of copyrighted works under § 108.
- § 109: Notwithstanding the copyright owner’s exclusive right of distribution, the owner of a lawfully made copy or phonorecord is entitled, without the authority of the copyright owner, to sell or otherwise dispose of possession of that copy or phonorecord.
- § 109(a): Commercial rentals of computer software and sound recordings of musical works are not protected by the first sale doctrine, § 109(b).
- § 109(c): The owner of a particular, lawfully made copy may display the copy without the permission of the owner of the copyright to viewers who are present at the place where the copy is located, notwithstanding the provisions of § 106(5).

- § 110: Certain public *performances* and *displays* are permitted under § 110 for classrooms, religious services and other specified purposes.
- § 112: Broadcasters are entitled to make certain *reproductions* of copyrighted works to facilitate their broadcasts.
- § 201(c): Owners of copyright in collective works can *adapt*, *reproduce* and *distribute* individual contributions thereto, under limited circumstances.<sup>46</sup>

#### B. General Defenses

##### 1. De Minimis

One of the first areas of “general defense” is that so little of the work is discernible that there is no violation of § 106 of the Act. For an example of use of the “de minimis” defense, compare *Sandoval v. New Line Cinema Corp.*<sup>47</sup> with *Ringgold v. BET, Inc.*<sup>48</sup> In *Ringgold*, an artist successfully established infringement when a poster featuring one of her works was used on the set of one scene in a TV comedy program, even though the work was visible for less than 30 seconds. In *Sandoval*, by contrast, a similar claim involving photographs used on the set of the suspense film *Seven* failed. The court concluded that the use was *de minimis*, because the works were on screen for only a few seconds, were often out of focus, and were frequently obscured by actors and props.

##### 2. Fair Use

A second line of defense, raised far more often, is that of fair use. Unlike *de minimis*, the fair use defense assumes that the plaintiff’s rights in the work have indeed been violated, but in such a way that there is no infringement. As described in § 107 of the Act:

Notwithstanding the provisions of section 106 . . . the fair use of a copyrighted work, including such use by reproduction in copies or phonorecords or by any other means specified by that section, for purposes such as criticism, comment, news reporting, teaching (including multiple copies for classroom use), 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.

The fact that a work is unpublished shall not itself bar a finding of fair use if such finding is made upon consideration of all the above factors.

Although under factor 1 above, “the purpose and character of the use” is a consideration, non-profit use can be infringing.<sup>49</sup>

The “nature of the copyrighted work” is a consideration as well, but not usually a very important one. Under this factor, the issue is whether the plaintiff’s work is factual or creative (factual works call for broader fair use), published or unpublished (unpublished calls for narrower fair use).<sup>50</sup>

The third factor, “amount and substantiality of the portion used” is often an issue, but no word count or percentage is “safe,” and even copying the *entire work* can be seen as fair use.<sup>51</sup>

The “effect of the use upon the potential market for or value of the copyrighted material” is often the most important consideration, but is not in itself dispositive. Under this factor, for example, lost license fees are recognized as cognizable market harm if a market for licenses is “reasonable, customary or likely to develop.”<sup>52</sup> If there is a low risk of market harm, and the allegedly infringing work is a parody, it need not be directly targeted at the plaintiff.<sup>53</sup>

A non-statutory “fifth factor,” transformative use, looks to whether the defendant used the copied material for an intrinsically different purpose, such as a parody of the plaintiff’s work, a functional “finding aid” on the Internet, or a factual guidebook about the plaintiff’s works.<sup>54</sup> If use is transformative, negative factors like commercial use, extensive taking and market harm weigh less heavily against the defendant.

### 3. Implied License

If the plaintiff is aware of the defendant’s use and does not object, the court may find an implied non-exclusive license arising from the conduct.<sup>55</sup> This is usually revocable at will, however, so the defendant must stop upon request, even if no damages are available for past conduct.

### 4. Statute of Limitations

Under § 507 of the Act, infringement actions must be brought within three years of the last infringing act. Claims of joint authorship must be brought within three years of repudiation by the other joint author,<sup>56</sup> and challenges to work-for-hire status must be brought within three years of creation of the work.<sup>57</sup>

### 5. Laches

A plaintiff may not bring a claim, even if not barred by § 507 of the Act, where the delay in commencing the action is unreasonably long and causes prejudice to the defendant.<sup>58</sup>

### 6. Misuse

A plaintiff may not enforce its copyright where it has used the copyright monopoly to restrict activities outside the copyright sphere—for example, by restricting licensees’ ability to create competing works<sup>59</sup> or to do business with third parties.<sup>60</sup> The copyright owner’s conduct need not rise to the level of an anti-trust violation.<sup>61</sup>

## IV. Damages

If § 106 of the Act was violated and there are no successful defenses, what remedies are available?

### A. If Work Was Timely Registered

If the plaintiff’s work was registered (1) prior to the commencement of the defendant’s infringement, or (2) after the commencement of the infringement but within 90 days of publication, where publication preceded infringement, the plaintiff is entitled to the following:

- Either *actual* damages (equal to the defendant’s net profits attributed to infringement) or *statutory* damages (up to \$30,000 per work infringed, or, if willful, up to \$150,000 per work infringed). Both are jury questions. The jury computes both and the plaintiff selects the higher number. Statutory damages are not to be punitive, and thus must bear some relation to the actual scope of the harm. Actual damages must be profits “attributable” to infringement, so apportionment may be necessary.<sup>62</sup>
- *Attorney fees*, at the court’s discretion. The other party’s position generally must be “objectively unreasonable” to warrant a fee award. Defendants are entitled to receive fees under this same standard when they prevail.<sup>63</sup>
- *Permanent injunction*. This is almost always granted against infringing acts, but may, in rare cases, be inappropriate.<sup>64</sup> Preliminary injunctions are also commonly granted where the plaintiff shows likely success on the merits.
- *Impoundment*. This is discretionary.

### B. If Work Not Timely Registered

If the plaintiff’s work was not timely registered, the plaintiff is entitled to the following:

- *Actual* damages (equal to the defendant’s net profits attributed to infringement), but not to statutory damages.

- *Permanent injunction*. This is almost always granted against infringing acts, but may, in rare cases, be inappropriate.
- *Impoundment*. This is discretionary.

## Endnotes

- 17 U.S.C. §§ 101–1332 (1976), as amended.
- 17 U.S.C. § 202.
- See *infra* I.A.6.
- Itar-Tass Russ. News Agency v. Russ. Kurier, Inc.*, 153 F.3d 82 (2d Cir. 1998).
- See 17 U.S.C. § 204.
- See 17 U.S.C. § 304.
- 495 U.S. 207 (1990).
- See 17 U.S.C. § 201(d).
- Itar-Tass Russ. News Agency v. Russ. Kurier, Inc.*, 153 F.3d 82 (2d Cir. 1998).
- Childress v. Taylor*, 945 F.2d 500 (2d Cir. 1991); see 17 U.S.C. § 101 (defining “joint work”).
- Papa’s-June Music, Inc. v. McLean*, 921 F. Supp. 1154 (S.D.N.Y. 1996).
- Thomson v. Larson*, 147 F.3d 195 (2d Cir. 1998).
- Gaiman v. McFarlane*, 360 F.3d 644 (7th Cir. 2004).
- Roth v. Pritikin*, 710 F.2d 937 (2d Cir. 1983). Even if the work was published after 1978, *Roth* holds that the 1909 Act governs where the employment relationship commenced prior to 1978.
- Brattleboro Publ’g Co. v. Winmill Publ’g Corp.*, 369 F.2d 565 (2d Cir. 1966).
- Murray v. Gelderman*, 566 F.2d 1307 (5th Cir. 1978).
- 490 U.S. 730 (1989).
- Aymes v. Bonelli*, 980 F.2d 857 (2d Cir. 1992), *remanded*, 1994 WL 97028, *aff’d*, 47 F.3d 23 (1994).
- See *Lulirama Ltd. v. Axxess Broadcast Servs. Inc.*, 128 F.3d 872 (5th Cir. 1997) (where works—radio jingles—were not in one of statutory categories, no work-for-hire status possible despite signed agreement from independent contractor; same contractor’s TV jingles, created under same agreement, were works for hire, however, as “audiovisual works”).
- Feist Publ’n, Inc. v. Rural Tel. Serv. Co.*, 499 U.S. 340, 340 (1990).
- See *id.*
- MAI Sys. Corp. v. Peak Computers Inc.*, 991 F.2d 511 (9th Cir. 1993).
- Herbert Rosenthal Jewelry Corp. v. Kalpakian*, 446 F.2d 738 (9th Cir. 1971).
- See 17 U.S.C. § 101 (defining “useful article”); *Pivot Point Int’l. Inc. v. Charlene Prods. Inc.*, 372 F.3d 913 (7th Cir. 2004) (collecting cases); *Carol Barnhart, Inc. v. Economy Cover Corp.*, 773 F.2d 411 (2d Cir. 1985).
- Walker v. Time Life Films, Inc.*, 784 F.2d 44 (2d Cir. 1986).
- 17 U.S.C. § 411.
- 17 U.S.C. § 410(c).
- 17 U.S.C. § 204.
- MAI Sys. Corp. v. Peak Computers, Inc.*, 991 F.2d 511 (9th Cir. 1993) (loading of copyrighted software into computer’s RAM creates a copy within meaning of § 101).
- L. Batlin & Son, Inc. v. Snyder*, 536 F.2d 486 (2d Cir. 1976) (variations in rendering of original, public domain, cast-iron bank in smaller, plastic version was too trivial to merit copyright protection as a derivative work); compare *Mirage Editions, Inc. v. Albuquerque A.R.T. Co.*, 856 F.2d 1341 (9th Cir. 1988) (purchaser of art books who cut out images, mounted them on ceramic tiles and offered them for sale had created derivative works and was not entitled to first sale defense); and *Lee v. A.R.T. Co.*, 125 F.3d 580 (7th Cir. 1997) (purchaser of note cards and small lithographs who mounted the works on ceramic tiles and resold them did not create infringing derivative works and was protected by first sale defense).
- Agee v. Paramount Commc’ns, Inc.*, 59 F.3d 317 (2d Cir. 1995) (incorporation of a copyrighted sound recording into a television soundtrack infringed the copyright owner’s reproduction right but did not infringe distribution right, because the soundtrack was transmitted on airwaves and not in material form; distribution generally requires transmission of material object in which recording is fixed).
- See 17 U.S.C. §§ 106(6), 114(a).
- See *Columbia Pictures Indus., Inc. v. Avco, Inc.*, 800 F.2d 59 (3d Cir. 1986) (video rental store publicly performed videocassettes when it rented videocassettes and in a room where the videocassettes could be played; booths were open to the public, even if only one person was present in the booth; first sale doctrine not relevant because transfer of ownership in a particular copy does not, because of indivisibility of copyright, eviscerate public performance right).
- Phillips v. Pembroke Real Estate, Inc.*, 459 F.3d 128 (1st Cir. 2006).
- See *Repp v. Webber*, 132 F.3d 882, 889 n.34 (2d Cir. 1997).
- Merton Co. v. Tony Trading H.K. Ltd.*, 6 U.S.P.Q.2d 1156 (S.D.N.Y. 1987).
- Id.* (emphasis added) (citing *Mattel Inc. v. Azrak Hamway Int’l*, 724 F.2d 357, 360 (2d Cir. 1983); *Burroughs v. Metro Goldwyn Mayer, Inc.*, 683 F.2d 610, 624 n.14 (2d Cir. 1982)).
- Tufenkian Import/Export Ventures, Inc. v. Einstein Moomjy Inc.*, 338 F.3d 127 (2d Cir. 2003).
- Computer Assocs. Int’l v. Altai Inc.*, 982 F.2d 693 (2d Cir. 1992).
- Mitek v. Arce Eng’g*, 89 F.3d 1548 (11th Cir. 1996).
- Knitwaves, Inc. v. Lollytogs Ltd.*, 71 F.3d 996 (2d Cir. 1995).
- Folio Impressions, Inc. v. Byer Cal.*, 937 F.2d 759 (2d Cir. 1991).
- Key Publ’ns, Inc. v. Chinatown Today*, 945 F.2d 509 (2d Cir. 1991); *CCC Info. Serv. v. McLean Hunter Mkt. Reports, Inc.*, 44 F.3d 61 (2d Cir. 1994); *Kregos v. Associated Press*, 937 F.2d 700 (2d Cir. 1991).
- Gershwin Publ’g Corp. v. Columbia Artists Mgmt.*, 443 F.2d 1159 (2d Cir. 1971).
- Softel, Inc. v. Dragon Med. & Scientific Commc’ns, Inc.*, 118 F.3d 955 (2d Cir. 1997).
- Faulkner v. Nat’l Geographic*, 409 F.3d 26 (2d Cir. 2005).
- 147 F.3d 215 (2d Cir. 1998).
- 126 F.3d 70 (2d Cir. 1997).
- Worldwide Church of God v. Philadelphia Church of God, Inc.*, 227 F.3d 1110 (9th Cir. 2000) (non-profit, free distribution of the plaintiff’s work held not to be fair use). Conversely, commercial uses can qualify as fair use. See *Liebovitz v. Paramount Pictures Corp.*, 137 F.3d 109 (2d Cir. 1998).
- Wright v. Warner Books, Inc.*, 953 F.2d 731 (2d Cir. 1991).
- Rotbart v. J.R. O’Dwyer Co.*, 34 U.S.P.Q.2d 1085 (S.D.N.Y. 1985).
- Am. Geophys. Union v. Texaco, Inc.*, 60 F.3d 913 (2d Cir. 1994).
- Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569 (1994).
- Id.*; *Kelly v. Arriba Soft*, 280 F.3d 934 (9th Cir. 2002) (Internet finding aid); *Ty v. Publ’ns Int’l*, 292 F.3d 512 (7th Cir. 2002) (factual

guidebook); but see *Dr. Seuss Enters. v. Penguin Books USA, Inc.*, 109 F.3d 1394 (9th Cir. 1997) (rejecting transformative use claim for purported parody); *Infinity Broad. Corp. v. Kirkwood*, 150 F.3d 104 (2d Cir. 1998) (radio "listen line" held not transformative); *Twin Peaks Prods. v. Publ'ns Int'l*, 996 F.2d 1366 (2d Cir. 1993) (book about TV series held not transformative).

55. *Jacob Maxwell Inc. v. Veeck*, 110 F.3d 749 (11th Cir. 1997).
56. *Zuill v. Shanahan*, 80 F.3d 1366 (9th Cir. 1996).
57. *Aday v. Sony Music Entm't*, 44 U.S.P.Q.2d 1688 (S.D.N.Y. 1997).
58. *Ory v. McDonald*, 68 U.S.P.Q.2d 1812 (C.D. Cal. 2003).
59. *Lasercomb Am., Inc. v. Reynolds*, 911 F.2d 970 (4th Cir. 1994).
60. *Practice Mgmt. v. Am. Med. Ass'n*, 121 F.3d 516 (9th Cir. 1997).
61. *Assessment Techs. of WI, LLC v. Wiredata, Inc.*, 350 F.3d 640 (7th Cir. 2003).
62. *Nichols v. Universal Pictures Corp.*, 45 F.2d 119 (2d Cir. 1930) (L. Hand, J.).
63. *Fogerty v. Fantasy, Inc.*, 510 U.S. 517 (1994).
64. See *N.Y. Times Co. v. Tasini*, 533 U.S. 483 (2001) (Ginsburg, J.); *Stewart v. Abend*, 495 U.S. 207 (1990); *Silverstein v. Penguin Putnam, Inc.*, 368 F.3d 77 (2d Cir. 2004).

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## COMMITTEE REPORTS



**Judith Bresler**

### The Committee on Alternative Dispute Resolution

Judith Bresler, Co-Chair  
Judith B. Prowda, Co-Chair

The idea of forming a Committee on Alternative Dispute Resolution (“ADR”) crystallized during a chance encounter in 2005 with an artist entangled in a

seemingly insoluble dispute with a collaborator. The two artists had been caught in an ongoing battle over royalties, credit, performance and publication of an artistic work. Although both were represented by counsel, negotiations had failed and were at a standstill. Each needed the other for the work to proceed. Future collaborations were on hold. Neither side could afford to litigate. During a dialogue the two of us had about the incident, it became clear that our Section should offer pro bono mediation services.

The rest is history, as the expression goes. Very quickly, the Committee on ADR became a standing Committee in the Entertainment, Arts and Sports Law Section. We embarked on our mission to educate ourselves and members of the Committee as to the various forms of ADR, focusing on mediation and arbitration. As Co-Chairs, we set an example by taking training programs in mediation offered by the New York State Supreme Court Commercial Division and Mediation in Law, a private organization which offers intensive training. As members of the Roster of Neutrals of the New York State Supreme Court Commercial Division, we provide pro bono mediation services through the court’s mandatory mediation program. Moreover, one of us renders similar pro bono services as a member of the Mediation Panel of the Eastern District of New York. In addition, we have each been appointed to the Commercial Panel of the American Arbitration Association (“AAA”) and have acted as Arbitrator on commercial cases. With these credentials and our growing experience, we expect to explore with EASL a number of other less familiar ADR processes for resolving disputes in the arts. Our efforts were recognized by the NYSBA last year when we received an award on behalf of EASL for our contribution to the advancement of ADR in New York State.



**Judith B. Prowda**

In a short time, we have succeeded beyond our expectations and still have a long way to go. We have achieved a balance in terms of topics addressed, with speakers on both mediation and arbitration. As to mediation, our first speaker, Simeon Baum, an experienced practitioner with more than 400 mediations to his name, provided the Committee with an overview of the state of ADR in the entertainment industry and offered tips on building a mediation practice, as well as representing parties in mediation. In another meeting, we heard from a distinguished panel of Intellectual Property lawyers—George Gottlieb, Diana Muller and Richard Schurin of the firm Gottlieb, Rackman & Reisman—as to how intellectual property disputes are far more costly to litigate than other cases and require creative solutions. We also explored strategy and received advice about representing clients in various ADR settings.

In still another mediation presentation, we had Liz McNamara, partner at Davis Wright Tremaine and Elayne Greenberg, mediator and former Chair of NYSBA’s Committee on ADR, consider how the *Da Vinci Code* copyright infringement case might have been mediated. As the attorney for Dan Brown and Random House, Liz provided an overview of the case. After a brief introduction by Elayne about the basics of mediation, the panelists and participants engaged in a lively discussion, imagining a resolution between the parties if they had explored their interests in mediation.

Our arbitration speakers have also focused both on theory and practice. In Part I of a two-session overview of arbitration and intellectual property, Jim Daniels, a seasoned AAA arbitrator with 40 years of litigation experience, led a discussion about selecting the right arbitrator in an Intellectual Property dispute. He addressed the timing of selection, the selection process in an AAA matter, general qualities of a “right arbitrator” (and a “wrong arbitrator”), determining what is especially important in particular cases, special features in an Intellectual Property dispute, and information sources about arbitrator candidates. In Part II, Jim, together with Elizabeth Champnoi, then District Vice President of the New York region for the AAA, gave a basic primer on AAA arbitration, addressing the various stages of commercial arbitration.

Subsequent to sessions focused either on arbitration or mediation, we then sponsored a presentation on the role of ADR as a community resource. Professor and former Dean of Fordham Law School John Feerick held an informal roundtable discussion about ADR with rapt participants, offering suggestions to the Committee regarding ADR initiatives in the public service.

Needless to say, we are bullish about ADR and its enormous potential to service the entertainment, art and sports communities. We are equally excited about our newly formed and burgeoning committee and the opportunity it affords all of us to acquire expertise in an array of processes that provide effective and immeasurably expeditious alternatives to litigation. Come join us and see what all the fuss is about!

## Copyright and Trademark Committee

Jay Kogan, Co-Chair  
Neil Rosini, Co-Chair



Jay Kogan

The subject matter of the Copyright and Trademark Committee resonates with the work of virtually every attorney in EASL: few attorneys in entertainment, arts or sports law can represent clients effectively without a basic understanding of copyright and trademark. Especially for this reason, our educational programs focus both on “nuts and bolts” elements of copyright and trademark practice—to sharpen everyday skills and understanding—as well as the esoteric edge of the cultural avant-garde.

The Committee was created at the time of the founding of the EASL section in 1988. Currently, Jay Kogan and Neil Rosini are Co-Chairs (2004 to date). Immediately preceding them was founding Committee Chair, Alan Hartnick of Abelman, Frayne and Schwab, who set a standard of excellence through the breadth and depth of subjects explored under his leadership.

In recent years, educational programs in the “nuts and bolts” category include, by way of example:

- *Calculating Damages in Copyright and Trademark Actions.* David Donahue of Fross Zelnick Lehrman & Zissu, P.C. reviewed different measures of damages calculations.
- *Copyright Terms and Termination: Do the Math.* Co-Chair Neil Rosini of Franklin, Weinrib, Rudell & Vassallo, P.C. surveyed the basics of calculating copyright terms and the extra-contractual means

by which licenses and assignments can be brought to an early end by the Copyright Act.

- *Political Parodies: IP Owners Aren't Laughing.* Attorneys Stacy Grossman of Fish & Richardson P.C., Jeanne Hamburg of Norris McLaughlin & Marcus, P.A. and Paul LiCalsi of Sonnenschein Nath & Rosenthal LLP, and co-chair of the Committee on Litigation, discussed fair use defenses under copyright and trademark rules, focusing on the context of political parodies.



Neil Rosini

Examples of educational programs in new areas of copyright and trademark practice include:

- *Reality in Fiction: Use of Real Products, Trademarks, Places, People and Cultural Icons in Works of Fiction.* Brian Murphy of Frankfurt Kurnit Klein & Selz P.C. and John Guiton of the Law Offices of John Guiton explored rights clearances, fair use and *de minimis* uses of third party properties in movies, television productions and other works.
- *Infringement Is Easy, Comedy Is Hard.* Rick Kurnit and Maura Wogan of Frankfurt Kurnit Klein & Selz P.C. discussed protections available to the work product of stand-up comics.
- *Chipping in from the Fringe: Is Imitation in Golf Architecture the Best Form of Flattery?* Robert W. Clarida of Cowan, Liebowitz and Latman P.C.; Golf course architect Stephen Kay, designer of The Architects Club in Lopatcong, New Jersey; and Golf writer and New York City entertainment lawyer, Jay Flemma of the Law Offices of Jay Flemma, examined the question of whether golf course designs are protected under copyright law.
- *Google Print Library Project—Infringement or Fair Use?* (co-sponsored with the Committee on Literary Works and Related Rights). Jonathan Band, Esq. of Jonathan Band PLC, and Jan Constantine of the Authors' Guild, sounded off on Google's plans to scan complete libraries of works and make them available for online searches. Richard S. Mandel of Cowan, Liebowitz & Latman P.C. and Co-Chair of the Literary Works and Related Rights Committee moderated.
- *Copyright and Business Aspects of Music Rights and Ringtones* (co-sponsored with the Music and Recording Committee). Both the business and legal facets of the technology of ringtones were closely examined by Richard Conlon, Vice President, New

Technology, BMI; Michael Simon, Senior Vice President, the Harry Fox Agency, Inc.; Ari Taitz, Vice-President, Warner Music Group; and Stan Schneider, Senior Vice President and General Counsel, from eMusic.com, Inc. (who is also Co-Chair of the Music and Recording Industry Committee).

Like other EASL committees, the Copyright and Trademark Committee delivers virtually all programs with CLE credit, for modest cost. With rapid developments in new technology, the desire of copyright owners to repurpose existing works for new media, and ongoing changes in business models and consumer expectations, the Copyright and Trademark Committee looks forward to continuing opportunities to enlighten our committee members and other attendees of our programs.

## Committee on Fine Arts

Judith B. Prowda, Chair



Judith B. Prowda

### Reflections on Five Years as Chair

As I look back at my tenure over the past five years, I realize how fortunate I have been to serve as Chair of the Committee on Fine Arts. We have invited distinguished speakers on a wide range of issues, not only in the visual arts, but in dance and music. Some topics have been time sensitive—such as important

court decisions. Some topics have addressed an urgency to gain knowledge about specialized areas within the arts. Others have addressed issues of historical gravity, such as Holocaust looted art. Still others simply have been reflective of my eclectic personal taste, interests and chance encounters with fascinating individuals I wished to engage in lively discussion. The result has been a dazzling array of conversations in the arts.

The Committee on Fine Arts has co-sponsored meetings with other EASL Committees, as well as the Copyright Committee of the Intellectual Property Section of the NYSBA, the Media and Entertainment Law Committee of the New York County Lawyers Association, and Volunteer Lawyers for the Arts (the last organized by EASL Second District Representative David Faux). One of the hallmarks of the Committee has been to invite artists and members of arts organizations to our meetings, a public-spirited gesture that enriches the discussions. We have also held meetings in a variety of venues in addition to law firms: Jan Krugier Gallery, Jack the Pelican Gallery, Christie's, The Arsenal in Central Park, Guggen-

heim Museum, and Chelsea Art Museum, as well as the executive offices of AXA Art Insurance, CompuMark and INTA.

Five years as Chair is a milestone—exactly one quarter of the life of EASL—and a propitious moment to take stock of the dynamic character of the Committee on Fine Arts. During this time, it seems that we have held meetings on virtually every imaginable facet of art law. For example, we have invited attorneys on both sides of major cases, such as the work-for-hire doctrine in the *Martha Graham* case (Katherine Forrest and Joanne Gentile of Cravath, Swaine & Moore and Judd Burstein of Judd Burstein, P.C.), fair use in the *Tufenkian* case (Robert Clarida of Cowan Liebowitz & Latman, P.C., William Thomashower of Kaplan, Thomashower and Landau, LLP and Lawrence Mandel of Klauber & Jackson, LLC) and the Visual Artists Rights Act and site specific art in *Phillips v. Pembroke* (Andrew Epstein of Barker, Epstein & Loscocco and Scott Lewis). We were given a private tour of the Matthew Barney retrospective at the Guggenheim (Maureen Mahony, art consultant and curator) and an exhibit from the collection of a prominent collector of contemporary Russian art (Natasha Kolodzei) at the Chelsea Museum of Art.

Members of academe have addressed our Committee on topics as diverse as shipwrecks and underwater cultural heritage (Emory Law School Professor David Bederman) and First Amendment, censorship and child pornography (New York University Law School Professor Amy Adler).

We have enjoyed lively discussions with former Metropolitan Museum of Art Director Thomas Hoving on art forgery and “How to Become a Fakebuster” and with co-authors Helen Harrison and Professor Constance Denne on the vibrant art community they described in their book *Hamptons Bohemia*. On the topic of outstanding jewelry estates, we held a meeting with Daphne Lingon, Senior Specialist, Jewelry, North and South America, and Anya Herz, Vice-President at Christie's.

Other meetings have been unique opportunities to learn from New York City officials (Adrian Benepe, Commissioner and Alessandro Olivieri, General Counsel, Parks and Recreation) on the legal issues surrounding the installation of *The Gates* by Christo and Jeanne-Claude in Central Park.

Still other issues have been in response to a need to educate ourselves on highly technical disciplines such as tax (Karen Carolan from the IRS), estate planning for artists and collectors (Jeffrey Galant and Paul Herman from Herrick Feinstein), and art insurance (Christiane Fischer, CEO of AXA).

Recently we have held meetings on attorney ethics in the practice of art law (Pery Krinsky of the Law Offices of Michael D. Ross and Andrew Weinstein of the Law Of-

fices of Andrew J. Weinstein), as well as developments in art recovery (Howard Spiegler of Herrick, Feinstein LLP).

Practical aspects of law practice in this field have been covered in photography and graphic arts contracts (Joel L. Hecker of Russo & Burke), copyright infringement in music cases (Judith Finell, Musicologist), a jury trial on valuation of a post-war masterpiece worth \$20 million (Martin Garbus of Davis & Gilbert LLP), copyright and trademark basics (Sergio Sarmiento, Volunteer Lawyers for the Arts), artist-gallery contracts (Carol Steinberg), fair use and parody (John Koegel of The Koegel Group LLP) and Alternative Dispute Resolution in the arts (yours truly—in addition to my law and ADR practice, I am a Senior Lecturer at Sotheby's Institute of Art, where I teach graduate courses in Art Law and Ethics & Policy in the Art Profession).

What's in store for the next five years? More and none of the same. Stay tuned!

## Committee on Litigation



Paul V. LiCalsi

**Paul V. LiCalsi, Co-Chair**  
**Stanley Pierre-Louis,**  
**Co-Chair**

The Litigation Committee monitors and addresses developments that affect disputes in the entertainment, arts and sports industries. Our membership meets periodically to discuss those developments, which include new case decisions, legislation and

technological innovations that have the potential to influence litigation and dispute resolution in our fields. The membership of the Litigation Committee ranges from newly admitted lawyers to some of the most esteemed practitioners of entertainment, art and sports law.

In October, through the NYSBA, the EASL Section published an entertainment, art and sports law litigation manual. The manual was developed under the direction of the Committee's past Chair, Peter Herbert, and Elissa D. Hecker of the Publications Committee.

Over the next year the Litigation Committee will endeavor to continue to develop programs of particular relevance to media, arts and sports. In 2007 we co-sponsored "Reporter's Privilege: The Impact of Recent High Profile Cases," which featured Carolyn Foley and Victor Kovner. They discussed the state of the reporter's privilege after the outing of Valerie Plame, the search for the Anthrax Mailer and the investigation of Los Alamos Scientist Wen Ho Lee.

## The Motion Pictures Committee

**Mary Ann Zimmer, Co-Chair**  
**Steve Rodner, Co-Chair**

The focus of the Motion Pictures Committee is on practice issues of interest to attorneys who spend some or all of their professional time representing film producers, talent and studios. The Committee's programs feature engaging speakers with recognized expertise and are designed to be eligible for CLE credit.

The Committee sponsored a program entitled "Shooting to Kill: A Review of Legal Issues in Independent Film." This program, presented by Diane Krausz, Esq., covered topics including corporate structure and financing, chain of title, casting and guild considerations, music clearance, E&O and distribution. The multi-faceted Diane is also a member of the Executive Committee of the EASL Section and a Co-Chair of the Theater Committee.

Another recent program featured Judith Finell, a musicologist, expert witness in the music area and president of her eponymous music services consulting firm. Judi's presentation, "Play It Again, Sam," examined the new reality of film and television music in the electronic age, with specific attention on how to avoid copyright infringement and give clients realistic advice for precautionary steps. A particularly valuable aspect of her presentation included playing, both on tape and live keyboard, musical compositions that have been subject to infringement litigation and that she has dealt with as a consultant. The program was so popular that two sessions had to be scheduled to accommodate all who wished to attend.

The Committee has also hosted a program entitled "Profit Participation Accounting—Do Figures Lie and Liars Figure?" an examination of studio profit participation definitions, their enforceability and conscionability, presented by Joseph Hart, Esq., based in Los Angeles. Joe's successful profit participation actions on behalf of clients have involved Universal Studios and King Features, among others. He is the co-author of "Less Than Zero: Studio Accounting Practices Not Only Defy Common Business Sense, They May Also Be in Violation of the Law!" published in *Los Angeles Lawyer Magazine*, which remains one of the most comprehensive and straightforward treatments of this fraught subject.

Just a few months ago, the Motion Pictures Committee organized a meeting, co-sponsored with the Television and Radio Committee and featuring Stan Soocher, Esq., the long-time Editor-in-Chief of *Entertainment Law and Finance* and Associate Professor of Music and Entertainment Industry Studies at University of Colorado at Denver. Stan discussed "Current Copyright Issues in Film and Television Law" with a large and enthusiastic luncheon

audience. The Committee has invited Stan to reprise his presentation, with 2007-08 developments that will be "current" in May 2008.

Yet another compelling presentation was "Truth and Lives on Film: The Legal Problem of Depicting Real Persons and Events in a Fictional Medium," with John Aquino, Esq., an attorney and author based in Washington, D.C. John's program included numerous film clips that helped illustrate the issues and about which he discussed how the law has developed in the area over the last 50 or more years. Co-sponsored by the Television and Radio Committee, this great program was attended by over 80 members of the Section, some of whom were SRO.

The Motion Pictures Committee has often partnered in presenting programs with the Television and Radio Committee and is currently planning some joint meetings in the upcoming year, including programs on acquisition of literary rights and E&O insurance.

Lest anyone think that the Committee is "all work and no play," some 30 members of the MoPix and TV/Radio Committees shared a delightful impromptu holiday luncheon last December. The Committee is planning more informal get-togethers where we can discuss mutual interests and build relationships in an informal atmosphere.

The Co-Chairs of the Committee, Mary Ann Zimmer, mazimmer74@aol.com, and Steve Rodner, srodner@pryorcashman.com, welcome comments and ideas from current or prospective members of the EASL Section and the Motion Pictures Committee.

## Programs Committee

Joyce S. Dollinger, Co-Chair  
Tracey P. Greco, Co-Chair



Joyce S. Dollinger

The mission of the Programs Committee is to organize, and encourage other committees to organize, programs and sessions which purpose is to educate and keep the Section's constituency up-to-date on developing or interesting topics and trends in the arena of entertainment, art and sports law.

The three primary general meetings that are sponsored by the Programs Committee are the EASL Section's Annual, Fall and Spring Meetings. Each of these meetings offers several CLE credits to presenters and attendees.

The Annual Meeting is held every January in conjunction with New York State Bar Association's Annual Meeting. This program traditionally takes the form of one or more panels and focuses in depth on one or two specific topics. In January 2007, the Programs Committee presented a seminar called "The Impact of Digital Technologies on the Entertainment Business," which analyzed hot button issues in the digital media and user-generated content space. The panels had interesting titles, such as "Old Wine in New Bottles: Digital Distribution of Audio and Video Content to Mobile Devices" and "YouTube and MySpace.com: Internet Socializing Communities or a Breeding Ground for Litigation?" Better than the titles were the fabulous speakers. Barry D. Skidelsky, Esq. moderated the digital distribution panel which featured Paul V. LiCalsi, Esq., Co-Chair of the Committee on Litigation and Partner at Sonnenschein Nath & Rosenthal LLP, Jeffrey D. Neubuger, Esq., Partner at Thelen Reid Brown Raysman & Steiner LLP and Charles Wright, VP, Business and Legal Affairs at A&E Television Networks. The user-generated panel entertained us by showing video of some "infringing" content posted on YouTube and then Litigation Committee Co-Chair Stanley Pierre-Louis, Esq. moderated a lively panel with Kenneth M. Kaufman, Esq., Partner at Skadden, Arps, Slate, Meagher & Flom, LLP, Gillian M. Lusins, Esq., VP of Intellectual Property at NBC Universal Inc., Marc S. Reisler, Esq., Partner at Katten Muchin Rosenman, LLP and Mark Eisenberg, Esq. EVP, SonyBMG Music Entertainment.

The Fall Meeting is held either in October or November and is affiliated with a music-related event called the CMJ Music Marathon and Film Festival, which is held yearly in New York City. Called "the Sundance of Rock n' Roll," the CMJ Music Marathon and Film Festival is one of the largest and longest running music events in the world, drawing tens of thousands of music lovers



*The Section's Annual Meeting at the New York Marriott Marquis, New York City, January 2007.*

to New York City each year to sample over 1,000 artists representing the worlds of rock, electronica, hip-hop, metal, Americana, world and jazz. The marathon also features panels exploring the most pressing issues in today's volatile music business, covering a wide variety of topics for people involved with virtually every aspect of the recording industry.

The Fall Meeting is called "The Music Business Law Seminar," and is an all-day CLE event produced in conjunction with the CMJ Music Marathon and Film Festival.

The Music Business Law Seminar features speakers at the center of the industry discussing critical law-related topics that will shape the future of the music business. Along with receiving a day's worth of credits, by attending the seminar, attendees have a three-day pass to all CMJ events, programs, seminars, screenings, concerts and clubs. The Programs Committee would like to thank Joanne Abbot Green, Founder and Executive Producer of CMJ, and her CMJ team for their commitment to and assistance in organizing this event.

In 2006, the first annual "Music Business Law Seminar" was filled to capacity (in a sold-out room) at the beautiful Stanley H. Kaplan Penthouse at Lincoln Center, and brought positive attention to the EASL Section. There was an A-list group of panelists and lively discussions. The law firm of Katten Muchin Rosenman LLP collaborated with the Programs Committee. The day started off with Joanne Abbot Green opening up the seminar. From there, the day was full of enticing legal education. Here is a summary of the fantastic day:

During the first panel, "Copyright Law 2.0: New Developments, Controversies and Updates in Copyright Law," the panelists discussed the pending revisions to the Copyright Act related to digital licensing, along with controversies under copyright regarding the latest technology. The panel featured Jacqueline Charlesworth, Esq., Senior Vice President and General Counsel



**The 2006 Fall Meeting at the Lincoln Center, New York City.**

a new source of revenue, and current and historical cases involving disputed ownership of these trademarks. Panelists included Jason M. Vogel, Esq., Counsel at Kilpatrick Stockton LLP, Christine Lepera, Esq., Partner at Sonnenschein Nath & Rosenthal LLP, Orin Snyder, Esq., Co-Chair, Media and Entertainment Group Partner at Gibson, Dunn & Crutcher LLP and Moderator Alan R. Friedman, Esq., Partner at Katten Muchin Rosenman LLP.

Many industry observers see the traditional recording contract as antiquated and unfair. Panelists on the third panel, "Evolution of the Artist Contract: New Issues in Recording Agreements," discussed the new models for recording agreements, as well as the latest issues arising under both traditional and new forms of recording agreements arising from digital sales and promotion. The panelists were Chris Taylor, B.A., LL.B., Partner at Taylor Mitsopoulos Burshtein, Rosemary Carroll, Esq., Partner at Carroll, Guido & Groffman, LLP, Jeff Kempler, Esq., Executive Vice President at Virgin Records America, Inc. and Moderator Julie Swidler, Esq., Executive Vice President of Business and Legal Affairs at the BMG U.S. Label Group.



**The 2006 Fall Meeting at the Lincoln Center, New York City.**

of the National Music Publishers' Association, Inc., Lee Knife, Esq., General Counsel of the Digital Media Association (DiMA), Steve Englund, Esq., Partner at Arnold & Porter LLP and Moderator Neil J. Rosini, Esq., Partner at Franklin, Weinrib, Rudell & Vassallo, P.C. and Co-Chair of the Copyright and Trademark Committee.

The second panel, "Artist as Brand: Ownership and Uses of Trademarks Related to Artists and Music," educated the audience about how recording artists and songwriters were using trademarks as

The fourth panel, "Catalog Shopping: Buying and Selling Music Assets and Companies," laid out trends and legal issues that frequently arise in the purchase, sale and financing of music companies and catalogs. Topics included legal issues in preparing the company for sale, the due diligence pro-

cess, antitrust concerns and how music assets are being valued. Susan Butler, Esq., Senior Correspondent (Legal & Music Publishing) at Billboard moderated the panel with four other speakers: Larry Miller, CEO of Or Music LLC, Michael S. Poster, Esq., Partner at Katten Muchin Rosenman LLP, Steve Salm, Vice President at Anthem Music and Media Group LLC and Ann Sweeney, Esq., Senior VP, Business Affairs and Administration at Sony/ATV Music Publishing LLC.



**Joyce Dollinger with the CMJ schedule at the Fall 2006 Meeting at the Lincoln Center, New York City.**

“Managing Ethics and Conflicts in Music Law” was the fifth panel of the day. Panelists, including Alan D. Barson, Esq., Law Office of Alan D. Barson and EASL Chairman, Gary E. Redente, Esq., Senior Associate at Steptoe & Johnson, LLP and Co-Chair of EASL’s Music and Recording Committee, and Janine Small, Esq., Partner at Carroll, Guido & Groffman, LLP, discussed ethical issues that frequently arise when attorneys represent bands or multiple parties to a venture.

The last panel of the day, “Whose Space? An Introduction to Issues Arising from User-Created Content Sites,” brought the program to a close with a standing room only group of listeners. MySpace and similar websites have become an increasingly important means of promotion and sales. Panelists discussed the ownership of content on these sites, the terms of use for artists and legal concerns arising from these sites. Panelists included John Hiler, CEO and Co-Founder of Xanga.com, Jason Liebman, Strategic Partnership Development at Google Video Global Digital Business Group, Mark Eisenberg, Esq., EVP Business and Legal Affairs at SonyBMG Music Entertainment and Moderator Marc S. Reisler, Esq., Partner at Katten Muchin Rosenman LLP.

The Second Annual Music Business Law Seminar was held in October at New York University in New York City. The venue for the Seminar was NYU’s Helen and Martin Kimmel Center for University Life in the stunning Richard L. Rosenthal Pavilion, which looks right onto Washington Square Park.

2007’s topics explored the state of the music industry at the dawning of the post-digital rights management (“DRM”) era and considered the difficult questions legal and business professionals are facing as their clients embrace new business models. As with the year before, the panels were filled with prominent industry names. The

law firms of Katten Muchin Rosenman LLP and Kramer Levin Naftalis & Frankel LLP collaborated with the Programs Committee.

New to the Seminar was a luncheon for CLE registrants, which was sponsored by the Grammy Foundation’s Entertainment Law Initiative. The Keynote Address was delivered by Michael Reinert, Esq., Executive Vice President, Business and Legal Affairs at Universal Motown Republic Records Group. The Programs Committee would like to graciously thank Scott Goldman, Vice President, Grammy Foundation and MusiCares and Kenneth J. Abdo, Esq., Vice President, Lommen, Abdo, Cole, King & Stageberg, P.A. for their hard work and generosity.

The following is from our Seminar Introduction:

*What is the state of the music business in the post-DRM (Digital Rights Management) world where music is distributed (voluntarily or otherwise) free? What role will the major labels play in the music industry of the next decade?*

*The model of the major label that most of us grew up with was built over the last forty years on the basis of discovering, developing and recording artists, and then marketing and distributing those recordings. Among the key elements that defined major labels was that they distributed their own product, which they usually owned as well. But, much more significant than their dominance in distribution was the fact that the major label “system” controlled the entire support system infrastructure throughout the music industry—from radio promotion, publicity, press, TV, marketing, retail, etc. To be an artist of any viability, you had no choice but to be part of that system. It was the only system that existed. But things have changed.*

*Today, we find that entire system has virtually crumbled before our eyes. It’s not only the mega mergers of the SONY/BMG’s and radical downsizing of the EMI and Warner Music Group. Nor is it the loss of Tower Records and hundreds of other music retailers or*

*that the Big Box stores have radically reduced the floor space for music. Music fans have discovered over the past decade that they can get—for free—whatever they want, whenever they want it, with a few key strokes or clicks of a mouse. Although paid channels are growing, and generating respectable sales levels, the recording industry is fighting a losing battle against the proliferation of illegal file sharing. As music industry groups soldier on in the courts, industry executives are finally recognizing how badly corroded recorded distribution channels have become, to the point where they may never produce meaningful and reliable revenues.*

*So what next? Intelligent minds are actively pursuing alternatives, shifting away from the direct monetization of recorded music through retail distribution. Artists are increasingly shifting their energies towards activities like touring, merchandising, and sponsorships. The result is a paradigm shift away from the “studio system,” and towards a de-centralized music industry.*

*So what will the music industry look like tomorrow, next year, next decade? Who will be the new power brokers in our new world—labels, managers, agents, advertisers, hardware manufacturers? What will the new business models look like and how [they] will fit into the existing legal framework, if at all?*

*This year, our A-list panelists will explore the state of the music industry at the dawning of the post-digital rights management (DRM) era, and will consider the difficult questions legal and business professionals are facing as their clients embrace new business models. [Grateful thanks to Ritch Esra, Stephen Trumbull and Paul Resnikoff for their contributions to this introduction.]*

Here was a summary of the day:

- “Under Pressure”: Is the record company recording contract still relevant? With the shift to a singles-based economy and the decision by the major labels to allow unprotected downloads, many artists and their advisors are questioning whether a traditional recording contract still makes sense, and if not, is the answer to enter into a relationship that is tailored to the current norms of the music industry, or simply abandon the concept altogether? The panel addressed these concerns, as well as the future role of recording companies. Panelists included M. James Cooperman, Esq., Chief Operating Officer and Executive Vice President, Business and Legal Affairs, Wind-Up Entertainment, Inc.; Donald R. Friedman, Esq., Member, Grubman, Indursky & Shire, P.C.; Elliot J. Groffman, Esq., Partner, Carroll, Guido & Groffman, LLC; and Bill Leibowitz, Esq., Chief Operating Officer and General Counsel, Sanctuary Group Worldwide.
- “Mad World”: What is the Role of copyright in a Post-DRM World? Many observers believe copyright law is outdated in its handling of licensing and music copyrights, especially given the rapid shifts in the music and entertainment industries overall. Speaker Joseph Salvo, Esq., Of Counsel, Weil, Gotshal & Manges, LLP reviewed the most significant recent developments in copyright law with respect to music, and highlighted examples of uncertainty in the post-DRM era.
- “Born in the USA”: Many American songwriters and publishers do not collect the full amount of their international royalties because they are unaware of the existence of the funds and how to access them. This panel, comprised of experts in the international music business, discussed how artists that live in the American music bubble could collect their international monies. Panelists included Steven Corn, Founder of Corn Music Services and Co-Founder of Big Fish Media, LLC; Arthur Erk, CPA, Partner, Wlodinguer, Erk & Chanzis, CPAs, PLLC; Jeffrey Gandel, Esq., Founder, Royalty Recovery, Inc.; and Oren J. Warshavsky, Esq., Partner, Troutman Sanders LLP.
- “Games Without Frontiers”: Panelists Kenneth J. Abdo, Esq., Vice President, Lommen, Abdo, Cole, King & Stageberg, P.A. and Howard Siegel, Esq., Partner, Pryor Cashman LLC, discussed the ethical dilemmas facing lawyers when the lines between artist, manager, producer and promoter blur together. This panel was sponsored by the Grammy Foundation’s Entertainment Law Initiative. Again, special thanks to Scott Goldman and Kenneth J. Abdo, Esq.
- “Cash Rules Everything Around Me”: A legal and financial guide for the new music business entrepreneur in a post-DRM business environment. New businesses and business models are being developed on a daily basis, but many will require financing to get started. Michael S. Poster, Esq., Partner, Katten Muchin Rosenman LLP discussed the types of financing available to music entrepreneurs, and the legal and business issues associated with them.
- “Where the Streets Have No Name”: What’s next? What will the music industry look like tomorrow, next year, next decade? Who will be the new power brokers in our new world—labels, managers, agents, advertisers, hardware manufacturers? What



**The 2007 Spring Meeting at the Yale Club, New York City.**

will the new business models look like and how they will fit into the existing legal framework, if at all? This panel took a step back from the traditional music industry to think about the role of music going forward, and how music will be accessed, monetized and used in the years to come. Panelists were Kenneth D. Freundlich, Esq. (Moderator), Partner, Schleimer & Freundlich, LLP; Alan Mintz, Esq., Vice President, Content Development for Starbucks Entertainment, Starbucks Corporation; Josh Rabinowitz, Senior Vice President, Director of Music, Grey Worldwide; Ronald R. Urbach, Esq., Co-Chair of the Advertising, Marketing and Promotions Department, Davis & Gilbert LLP.

The Spring Meeting is held every April or May. In 2007 the Spring Meeting was held at the Yale Club as a breakfast meeting and featured acclaimed lawyer, law professor and journalist Stan Soocher, Esq., who presented his comprehensive and well-researched entertainment law update called "Entertainment Law In Review," 2006-2007. The three-credit CLE program was hugely successful and sold out long before the event took place.

The Programs Committee is looking forward to bringing more special events to the Section and we are grateful to all the attendees, speakers and the staff of the NYSBA who help to coordinate many of the details.

## The Sports Law Committee

**Anthony Dreyer, Co-Chair**  
**Ayala Deutsch, Co-Chair**



**Anthony Dreyer**

The Sports Law Committee focuses on all aspects of sports law, including: labor and collective bargaining issues; licensing and the protection of team, league, and player Intellectual Property; the regulation of athlete and agent conduct; and player medical and disability issues. In addition, each year the Committee sponsors and helps organize a wildly successful sports law symposium at Fordham University School of Law. Each year the program attracts top practitioners and other representatives from major sports leagues and teams, sports broadcasters, and players.

The Committee has also sponsored sport law symposia at St. John's Law School. In addition, the Committee works with young professionals to provide advice about careers in sports law through symposia sponsored at other area law schools.

## Television and Radio Committee

**Barry Skidelsky, Co-Chair**  
**Pamela Jones, Co-Chair**



**Barry Skidelsky**

The Television and Radio Committee is dedicated to advancing the professional development of its members.

Our programs address relevant legal and business issues, such as copyright, trademark, rights of privacy and publicity, defamation and advertising. They provide practical guidance in dealing with the acquisition of underlying rights as well as the negotiation and drafting of production, distribution and licensing agreements.

One of our goals is to create a collegial environment where EASL members can meet, discuss and explore current issues, as well as to network and build relationships, through a series of CLE programs and a year-end holiday luncheon.

Another of the Committee's goals is to assist members of the Section to better understand and meet the challenges of advances in communications and computer technology by sponsoring educational CLE programs featuring leading attorneys and other key players in our industry.

2007 was an active year for the Committee. We co-sponsored several well-attended CLE luncheon programs and a holiday luncheon in December. Our best attended CLE program was "Everything You Ever Wanted To Know About Pre-Broadcast Review," a multi-media presentation given by EASL member Kathleen Conkey, Esq., which drew attorneys from law firms as well as television networks including VH1, MTV and AETN.

The Committee also co-sponsored two other very popular programs: "Truth and Lives on Film—The Legal Problem of Depicting Real Persons and Events in a Fictional Medium" and "The State of the Reporter's Privilege After the Outing of Valerie Plame," a year in review given by leading First Amendment authority Victor A. Kovner.

Our May program, "Current Copyright Issues in Film and Television," featured a summary of the year's major entertainment law cases by Stan Soocher, Esq. We were very pleased that these programs drew such large crowds.

In the fall the Committee offered several CLE programs, including "Advertising Law," "Literary Works as the Basis for Television," "Contingent Compensation: Getting to Gross," and "Spotting the Red Flag: What You Need to Know About E&O Policies."

The Committee encourages participation by both EASL members and non-members. For more information please contact Committee Co-Chairs Pamela Jones at [pamelajonesesq@aol.com](mailto:pamelajonesesq@aol.com) or Barry Skidelsky at [bskidelsky@mindspring.com](mailto:bskidelsky@mindspring.com)

## Theatre and Performing Arts Committee

Jason Baruch, Co-Chair

Diane Krausz, Co-Chair

The Theatre and Performing Arts Committee of EASL organized three standing-room-only programs in the first half of 2007.

On February 6, 2007, the Committee presented a program called "When Not-for-Profit Theatres Produce Commercial Productions—Legal and Accounting Perspectives" about the intersection between not-for-profit and commercial theatre activities. The speakers were Deborah Hartnett, Esq. of Paul, Weiss, Rifkind Wharton & Garrison LLP and Karen Kowgios, CPA of Fried & Kowgios Partners LLP.



**Diane Krausz**

On February 23, 2007, the Committee co-presented a program with the Committee on Music and Recording Industry called "Show Me the Money: Royalty Audits in Music and Theater" about how to conduct audits and interpret statements in the theatre and music industries. The speakers were Arthur Erk, CPA of Wlodinguer, Erk & Chanzis, Christopher Hull, CPA of Prager & Fenton, LLP and Mark Josephson, Esq., CPA of Murray and Josephson, CPAs.

On June 20, 2007, the Committee presented a program at the Dramatists Guild called "The ABCs of the APC: Will It Run," about the Approved Production Contract for Plays and Musicals and its future in the world of commercial theatre. Speaking were Creative Artists Agency agent Olivier Sultan, Dramatists Guild Executive Director Ralph Sevush, Esq. and theater attorney (and Co-Chair of the Committee) Jason Baruch, Esq. of Sendroff & Baruch, LLP.

The Committee is putting plans together for further programs in the coming year and looks forward to its continued success in bringing to the discussion table practitioners within the theatre community and from other disciplines.

## The Young Entertainment Lawyers Committee

Jennifer Romano Bayles, Co-Chair

Vejay Lalla, Co-Chair



Vejay Lalla

The Young Entertainment Lawyers Committee is not only one of the largest committees of the EASL Section of the NYSBA, but it is also one of the most important. We are committed to not only serving as a bridge to a professional life for law students interested in educating themselves in the area of entertainment and media law, but we also provide a solid platform and support system

for practicing attorneys who are navigating through the early stages of these same fields.

The Committee takes a grass roots approach to reaching out to students and involving them in the organization on every level. Throughout the years, we have aggressively tapped into alumni networks, offered mentor programs, "round-robin" table discussions and "meet-and-greets" for students at various law schools throughout the tri-state area. These initiatives provide opportunities for career and leadership development, mentoring, and networking; and encourage interest and participation in the Young Entertainment Lawyers

Committee, as well as the EASL Section. Our most recent program, "Careers in Intellectual Property and Entertainment Law," which was held at the Benjamin N. Cardozo School of Law, had over 80 attendees and was earmarked as one of the most helpful and informative programs for students interested in learning about the "ins and outs" of the entertainment industry.

To accommodate our practicing young lawyers and meet their unique and changing needs, we are continually offering programs on cutting-edge areas of entertainment law. One of our signature and most popular programs is our annual "Popcorn and Ethics," which uses well-known films and television shows to educate lawyers on their moral and ethical responsibilities.

Every year the Young Entertainment Lawyers Committee co-sponsors several high-profile events and programs with other committees in the EASL Section, in an effort to expose our members to a spectrum of issues and areas of practice, and to help guide them toward an enriched understanding of the entertainment industry as a whole. Most recently, we co-sponsored a panel on "21st Century Promotions," with the Television and Radio and Motion Picture Committees.

The Young Entertainment Lawyers Committee will continue to strive to nourish the impressionable minds of law students and exist as a source of light and growth within the EASL Section, as well as one of the building blocks to the NYSBA.

## Are you feeling overwhelmed?

The New York State Bar Association's Lawyer Assistance Program can help.



We understand the competition, constant stress, and high expectations you face as a lawyer, judge or law student. Sometimes the most difficult trials happen outside the court. Unmanaged stress can lead to problems such as substance abuse and depression.

NYSBA's LAP offers free, confidential help. All LAP services are confidential and protected under section 499 of the Judiciary Law.

**Call 1.800.255.0569**



**NEW YORK STATE BAR ASSOCIATION  
LAWYER ASSISTANCE PROGRAM**

# **COWAN, DEBAETS, ABRAHAMS & SHEPPARD LLP**

Congratulates the  
Entertainment, Arts and Sports Law Section  
of the New York State Bar Association on its  
Twentieth Anniversary.

It has been our pleasure to be actively involved  
with the EASL Section since its inception, and we look  
forward to continuing to do so.

We also congratulate the incoming Chair, Kenneth Swezey,  
the latest in a long line of CDAS Partners who have  
been Chairs of the Section.

## **COWAN, DEBAETS, ABRAHAMS & SHEPPARD LLP**

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# NYSBA Guidelines for Obtaining MCLE Credit for Writing

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

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

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

- The writing must be such that it contributes substantially to the continuing legal education of the author and other attorneys;
- it must be published or accepted for publication;
- it must have been written in whole or in substantial part by the applicant;

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

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

**Get CLE Credit:  
Write for the *EASL Journal!***

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

## Law Student Initiative Writing Contest

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.

**Form:** Include complete contact information: name, mailing address, law school, law school club/organization (if applicable), phone number and e-mail address. There is no length requirement. Any notes must be in *Bluebook* endnote form. An author's blurb must also be included.

**Deadline:** Submissions must be received by **Friday, May 16, 2008**.

**Submissions:** Articles must be submitted via a Word e-mail attachment to [echeckeresq@yahoo.com](mailto:echeckeresq@yahoo.com) or via mail to:

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

### Topics

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

### Judging

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

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

**Deadline:  
Friday, May 16, 2008**

# The Phil Cowan Memorial/BMI Scholarship

Law students, take note of this publishing and scholarship opportunity: The Entertainment, Arts and Sports Law Section (EASL) of the New York State Bar Association, in partnership with BMI, the world's largest music performing rights organization, has established the Phil Cowan/BMI Scholarship! Created in memory of Cowan, an esteemed entertainment lawyer and a former Chair of EASL, the Phil Cowan/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, arts or sports law.

The Phil Cowan/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, arts or sports law.

The paper should be 12-15 pages in length, double-spaced and including footnotes, in *Bluebook* form. All papers should be submitted to designated faculty members of each respective law school. All law schools will screen the papers and submit the three best to EASL's Phil Cowan Memorial/BMI Scholarship Committee. The Committee will read the papers submitted and will select the Scholarship recipient(s).

## Eligibility

The Competition is open to all students 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.

## Yearly Deadlines

November 15th: Law School Faculty liaison submits 3 best papers to the EASL/BMI Scholarship Committee

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

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

## Prerogatives of EASL/BMI's Scholarship Committee

The Scholarship Committee is composed of the current Chair of EASL, all former EASL Chairs who are still active in the Section, all 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 Web site.* BMI reserves the right to post each winning paper on

the BMI Web site, 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. The Scholarship Committee reserves the right to submit all papers it receives to the *EASL Journal* for publication and to 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 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.

## Donations

The Phil Cowan/BMI Scholarship Fund is pleased to accept donations. The donations are tax-deductible. All donations should be made by check, and be payable to **The New York Bar Foundation**. Each donation should indicate that it is designated for the Phil Cowan/BMI Scholarship. **All donations should be forwarded to The New York Bar Foundation, One Elk Street, Albany, NY 12207, Attn: Director of Finance.**

## About BMI

BMI is an American performing rights organization that represents approximately 300,000 songwriters, composers and music publishers in all genres of music. The non-profit-making company, founded in 1940, collects license fees on behalf of 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 4.5 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 almost 2,000 members of the EASL 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 that is published three times per year, the *EASL Journal*.

# Section Committees and Chairpersons

The Entertainment, Arts and Sports Law Section encourages members to participate in its programs and to contact the Section Officers listed on the back page or the Committee Chairs or Co-Chairs for further information.

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# Entertainment Litigation

New

What does an entertainer or creative artist need for a healthy, dispute-free career?

An artist needs protection, and litigation in the entertainment and intellectual property fields commonly involves:

- managers with conflicting interests and divided loyalties; contracts that demand exclusivity, but have no express obligations to implement the contract terms; copyright infringements; and unauthorized use of an artist's name, likeness or persona;
- proper credit for the artist and a full accounting of all compensation due and owing.

The artist (and the litigator) needs education, as litigation often involves:

- a misunderstanding of the legitimate needs and the reasonable expectations of the parties with whom the artist contracts, and the legitimate positions of the adversary, and
- the misguided belief that only trial by combat will best achieve the artist's objectives.

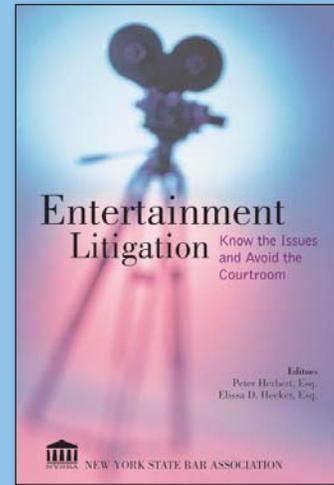
While each field in the creative arts has its own special customs and practices, these issues are common to them all. *Entertainment Litigation* is a thorough exposition of the basics that manages to address in a simple, accessible way the pitfalls and the complexities of the field, so that artists, armed with that knowledge, and their representatives can best minimize the risk of litigation and avoid the courtroom.

Written by experts in the field, *Entertainment Litigation* is the manual for anyone practicing in this fast-paced, ever-changing area of law.

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Brent R. Canning, Esq.
- 12. Litigating Domain Name Disputes**  
Deborah L. Benson, Esq.  
Amy B. Spagnole, Esq.
- 13. Alternative Dispute Resolution**  
Judith Bresler, Esq.  
Judith Prowda, Esq.

## Appendices



## Key Benefits

- Keep up-to-date with recent changes representing clients in the entertainment field
- Understand the nature of artist-manager relations
- Increase your versatility across several entertainment mediums

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