NYSBA

FALL/WINTER 2008 | VOL. 19 | NO. 4

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

Inside

- 2008 Legislation Affecting Entertainment, Arts and Sports Law
- Applying the Doctrine for Hire and Joint Works to Web site Development
- Conceptual Art and Art Theft
- Compulsory Mechanical Licensing
- Comparative Analysis on PSP Software Cases
- *Tiffany v. eBay*, the *Perfect 10* Cases

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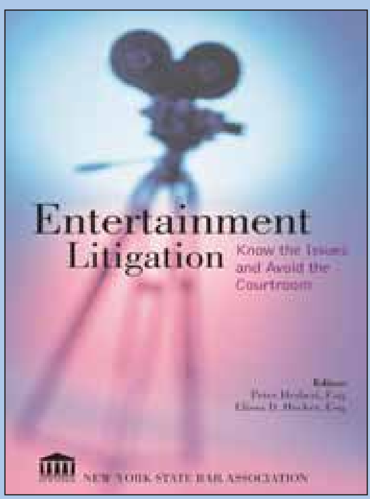

Entertainment Litigation is a thorough exposition of the basics that manages to address in a simple, accessible way the pitfalls and the complexities of the field, so that artists, armed with that knowledge, and their representatives can best minimize the risk of litigation and avoid the courtroom.

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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PRODUCT INFO AND PRICES

2007 / 232 pp., softbound
PN: 4087

NYSBA Members	**$35**
Non-members	$55

** Free shipping and handling within the continental U.S. The cost for shipping and handling outside the continental U.S. will be added to your order. Prices do not include applicable sales tax.

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Remarks from the Chair

After a restful Fall / Winter season EASL is back in full swing and there is much to report!

I am thrilled about the continued success of our Pro Bono Committee's partnership with its counterpart in the IP Section. Together, the committees coordinated a very successful pro bono legal clinic for members of the Dramatists' Guild, and are planning several more clinics for this year and next.

EASL has and will continue to co-sponsor many big events throughout the season. In October, in conjunction with the CMJ Music Marathon & Film Festival, we once again brought in an impressive panel of experts for our Music Business Law Seminar. The panelists discussed the many critical legal issues affecting the future of the music industry. We were especially excited to feature a keynote address by producer, author, founder and president of artist management company Gold Village Entertainment, and all-around music industry legend, Danny Goldberg. Special thanks to Joyce Dollinger, Alan Barson and Tracy Greco, and to all who volunteered to help out for their tireless work in putting this event together.

In early November, in association with the New Jersey State Bar Association, EASL co-sponsored Seton Hall's Sports & Entertainment Law Symposium. This program explored many interesting issues in the sports industry, including the legal and business issues related to constructing and operating public and private sports and entertainment facilities, legal issues related to the tension between athletes' obligations to play the game and to tend to health concerns and serious injuries, and how socially unacceptable conduct that occurs outside an athlete's business obligations impacts the talent's contractual obligations and success.

We have also recently presented excellent CLE opportunities, including the Alternative Dispute Resolution Committee's Mediation Luncheon, which covered basic mediation concepts, and the procedural and substantive details of how to best resolve arts- and entertainment-related disputes without litigation. In addition, the Theatre and Young Entertainment Lawyers Committees co-hosted a CLE panel discussing the rights and union issues involved in bringing a Broadway show to television. Many other events are on the horizon, so be sure to check our Web site for updates.

In addition to our wonderful programs, we also continue to grow and maintain a strong Executive Committee. I would like to welcome Kay Murray, who recently joined us as the new Chair of the Committee on Literary Works and Related Rights. Congratulations to Judith Prowda, who has been appointed as EASL's liaison to the new Dispute Resolution Section. I would also like to thank David Faux, EASL's Second District Representative, for organizing Punch / Counterpunch: Lawyering for the Boxer, a unique event that spotlighted a fascinating niche within the Sports Law community at the world famous Gleason's Boxing Gym in Brooklyn. (see page 22 for more information about this event.)

Our Annual Meeting is scheduled for January 26, 2009 at the New York Marriott Marquis, and the Programming Committee is already hard at work. It is sure to be an outstanding event, so save the date on your calendars. I look forward to seeing everyone there.

Kenneth Swezey

Editor's Note and Pro Bono Update

Thank you to all of the attorneys who volunteered at our inaugural pro bono legal clinic with the Dramatists Guild of America, Inc. ("DG"). In conjunction with the IP Section's Pro Bono Committee and its Chair, Brian Nolan, we organized a record number of volunteer attorneys in late August. Although we had an unfortunate last-minute cancellation of a previously scheduled clinic with another organization, we found an excellent replacement clinic for all of the volunteers, and Dave Faux, Director of Business Affairs at the DG and EASL's Second District Representative, saved the day by quickly getting the word out to his members.

Due to the fact that we limited the number of volunteers and participants (as this was our first clinic with the DG), the Pro Bono Clinic engendered so much interest that we had to turn away both volunteer attorneys and DG members. We hope to increase the number of participants served in the future, when the clinic is not planned on such short notice.

The feedback from volunteers and participants has been overwhelmingly positive, and we look forward to a continued relationship with the DG and to future clinics with its members.

Special thanks to the August 27th Volunteer Attorneys:

Donald Bertrand	Christine Pepe
Rebecca Frank	Zak Shusterman
Oriyan Gitig	Kelly Slavitt
Rachel Leeds	Kalyn Stephens
Amy Lehman	Natalie Stanford
Alasdair McMullan	Alison Winter
Brian Nolan	

* * *

For your information, should you have any questions or wish to volunteer for our pro bono programs and initiatives, please contact the Pro Bono Steering Committee member who best fits your interests as follows:

Clinics

Elissa Hecker and Christine Pepe will be coordinating walk-in legal clinics among various organizations.

Elissa D. Hecker, eheckeresq@yahoo.com and Christine Pepe, cpepe@mwe.com

Litigations

Monica Pa will be coordinating pro bono litigations.

Monica Pa, monicapa@dwt.com

Speakers Bureau

The Pro Bono Committee has joined forces with the Intellectual Property Law Section to form a Speakers Bureau to provide speakers on entertainment, art, and sports law issues for not-for-profit organizations, art schools, local high schools, and other groups that can benefit from the wide and enormous expertise of our members. One of the most satisfying aspects of a successful career can be to speak to working artists to help them understand their rights and the critical issues that affect their careers. Please think about volunteering for this wonderful opportunity to share your expertise with students, artists, and young entertainers who can benefit so much from your knowledge. We are also compiling a list of organizations / entities that may want to avail themselves of this great opportunity. Eventually we will contact the Volunteer Lawyers for the Arts and the Copyright Society of the U.S.A. to try to join forces with them.

Please send your name, area of expertise, and contact information to Carol Steinberg at CS9@hpd.nyc.gov. In addition, please let her know about excellent speakers who you have heard speak, so we may contact them, and of organizations that may be interested in having speakers.

Mentor Program

Elissa Hecker and Monica Pa will be coordinating the volunteer mentor / mentee program.

Elissa D. Hecker, eheckeresq@yahoo.com and Monica Pa, monicapa@dwt.com

We are looking forward to working with all of you, and to making pro bono resources available to all EASL members.

* * *

The next *EASL Journal* deadline is Friday, January 9, 2009.

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 a Past Chair of the EASL Section. She is also Co-Chair and creator of EASL's Pro Bono Committee, Editor of *Entertainment Litigation*, a frequent author, lecturer and panelist, a member of the Board of Editors for the NYSBA Bar *Journal*, a member of the Copyright Society of the U.S.A (CSUSA) and a member of the Board of Editors for the *Journal of the CSUSA*. Elissa is the recipient of the New York State Bar Association's 2005 Outstanding Young Lawyer Award. She can be reached at (914) 478-0457 or via email at: eheckeresq@yahoo.com.


Pro-Bono Clinic
CO-SPONSORED BY
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• INTELLECTUAL PROPERTY SECTION OF THE NEW YORK STATE BAR ASSOCIATION ("NYSBA")
• ENTERTAINMENT, ARTS, AND SPORTS LAW SECTION OF NYSBA

2009 Annual Meeting

20 YEARS ENTERTAINMENT, ARTS AND SPORTS LAW

Entertainment, Arts and Sports Law Section

Annual Meeting

Monday, January 26, 2009

New York Marriott Marquis

20 YEARS ENTERTAINMENT, ARTS AND SPORTS LAW

New York State Bar Association

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

Law Student Initiative Writing Contest

Congratulations to LSI winners
Han Sheng Beh for his article entitled:
"Applying the Doctrine of Work for Hire and Joint Works to Website Development"

and

Alice JaKyung Choi for her article entitled:
"Sounds Like a Law Suit! Comparative Analysis on P2P Software Cases"

Both are students of the Touro Jacob D. Fuchsberg Law Center

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, art 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 email address. There is no length requirement. Any notes must be in *Bluebook* endnote form. An author's blurb must also be included.
- **Deadline**: Submissions must be received by **Friday, January 9, 2008**.
- **Submissions**: Articles must be submitted via a Word email attachment to eheckeresq@yahoo.com or via mail to:

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

Topics

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

Judging

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

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

Next *EASL Journal* Submission Deadline:
Friday, January 9, 2009

The Phil Cowan Memorial/BMI Scholarship

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

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

The Competition

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

The paper should be 12 to 15 pages in length (including *Bluebook* form footnotes), double-spaced and submitted in Microsoft Word format. PAPERS LONGER THAN 15 PAGES TOTAL WILL NOT BE CONSIDERED. The cover page (which is not part of the page count) should contain the title of the paper, the student's name, school, class year, telephone number and e-mail address. The first page of the actual paper should contain only the title at the top, immediately followed by the body of text. **The name of the author or any other identifying information must not appear anywhere other than on the cover page**. All papers should be submitted to designated faculty members of each respective law school. 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 10 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 three best papers to the EASL / BMI Scholarship Committee;

January 15th: EASL / BMI Scholarship Committee determines the winner(s).

The winner(s) 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, respectively, only one paper, or no paper, is sufficiently meritorious. All rights of dissemination of the papers by each of EASL and BMI are non-exclusive.

Payment of Monies

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

Donations

The Phil Cowan Memorial / 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 Memorial / BMI Scholarship. **All donations should be forwarded to The New York Bar Foundation, One Elk Street, Albany, NY 12207, Attention: Director of Finance.**

About BMI

BMI is an American performing-rights organization that represents approximately 350,000 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 1976, NYSBA programs and activities have continuously served the public and improved the justice system for more than 125 years.

The more than 1,600 members of the Entertainment, Arts and Sports Law Section of the NYSBA represent varied interests, including headline stories, matters debated in Congress, and issues ruled upon by the courts today. The EASL Section provides substantive case law, forums for discussion, debate and information-sharing, pro bono opportunities, and access to unique resources including its popular quarterly publication, *EASL Journal.*

NYSBA Guidelines for Obtaining MCLE Credit for Writing

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

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

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

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

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

2008 New York State Legislation Affecting Entertainment, Arts and Sports Law

By Bennett Liebman

The accompanying tables show the action taken on legislation affecting entertainment, art and sports issues in the New York State legislature in 2008.

The major issue, however, was not acted upon in the session. That is the issue of the privacy and publicity rights of the estates of deceased celebrities. Similar efforts to secure publicity rights on behalf of deceased celebrities have languished in New York State for years. These efforts to pass legislation had gained strength from the passage in 2007 of California's Dead Celebrities Bill and a renewed effort by the estate of Marilyn Monroe to secure passage of deceased celebrity- rights legislation.[1]

Numerous celebrities appeared in Albany to lobby on behalf of the bill. The last month of the session saw Martin Sheen, Liza Minnelli and Al Pacino lobby legislators.[2] Sophia Loren reportedly called then-Senate Majority Leader Joseph Bruno in support of the legislation.[3] An amended detailed deceased celebrity rights bill emerged in the State Senate four days before the end of the session.[4] On the last day of the session, the bill was defeated by a coalition of media photographers, cable TV systems, motion picture producers and publishers of newspapers and magazines, who argued that the legislation would impact newsgathering and their First Amendment rights.

Given the very significant efforts of the Monroe estate to obtain passage of this legislation, it is a certainty that this issue will be revisited in the months to come. There has been talk of the legislature holding additional hearings on this subject and there is the further possibility that it could pass a "dead celebrities law" if it were somewhat more limited in time and scope.

Film Production Tax Credit

Arguably, the most significant entertainment and arts-related legislation that passed this session did not involve Intellectual Property law at all. Rather, it involved taxation. The legislature, in a session notable for fiscal shortfalls in its budget, authorized a significant increase in the Empire State film production tax credit.

Part WW-1 of Chapter 57 of the Laws of 2008 increases the credit from 10 percent to 30 percent of qualified production costs allowed to be claimed and extends the sunset by one year, to 2012. Additionally, the credit will be fully refundable and the cap will increase to $65 million in 2008, $75 million in 2009, $85 million in 2010, $90 million for both 2011 and 2012, and $110 million in 2013.[5] According to Governor Paterson, "The significant expansion of the tax credit will keep New York the most popular destination outside of Hollywood for filmmakers, and further promote an industry that creates billions of dollars in economic activity in New York each year."[6]

Libel Tourism

One piece of legislation that was controversial in the legal community, if not the political community, was the libel terrorism protection act.[7] This was legislation that was intended to reverse the December 2007 decision of the New York Court of Appeals in *Ehrenfeld v. Bin Mahfouz*.[8] In the *Ehrenfeld* case, the Court of Appeals reviewed a question certified to it by the United States Court of Appeals for the Second Circuit.

The case involved a defamation suit that had been brought in the United Kingdom against a New York resident, Rachel Ehrenfeld, who in 2003 published a book entitled *Funding Evil: How Terrorism Is Financed--and How to Stop It*.[9] Ms. Ehrenfeld asserted in her book that Saudi Arabian businessman Bin Mahfouz was a financial supporter of Islamic terrorism.[10]

Mr. Bin Mahfouz sued Ms. Ehrenfeld for libel in the United Kingdom, where 23 of her books had been published. The United Kingdom has been known to be receptive to plaintiffs in what are now considered "libel tourism"[11] cases. Ms. Ehrenfeld and her publisher did not appear in the case, and a default judgment was entered against her.[12]

Ms. Ehrenfeld brought suit in federal court seeking "a declaratory judgment that, under federal and New York law, defendant could not prevail on a libel claim against her based upon the statements at issue in the English action."[13] Mr. Bin Mahfouz sought dismissal based on the lack of person and subject matter jurisdiction. The matter hinged on the reach of the state's long-arm statute, Section 302 (a) (1) of the CPLR. The district court found it lacked jurisdiction over Mr. Bin Mahfouz. On appeal, the Second Circuit certified the question of the reach of the long-arm statute to the Court of Appeals. The Court found that the long-arm statute did not reach Mr. Ben-Mahfouz's conduct, holding that "none of the contacts here establish that defendant purposefully availed himself of the privileges of and benefits of New York's laws."[14] Based on the Court of Appeals decision, the Second Circuit dismissed Ms. Ehrenfeld's suit.[15]

The legislation amends the CPLR to prohibit "enforcement in New York of a foreign defamation judgment unless a New York court determines that the foreign defamation law satisfies the freedom of speech and press protections guaranteed by the New York and United States constitutions."[16] Additionally, the long-arm statute is amended to grant New York courts "personal jurisdiction over any person who obtains a judgment in a defamation proceeding outside the United States against any person who is a resident of New York or is a person or entity amenable to jurisdiction in New York who has assets in New York . . . the purpose of determining whether said judgment should be deemed non-recognizable."[17]

In signing the legislation, Governor Paterson noted that the "these steps are fully warranted, and have my wholehearted support. With the signing of this bill, New York State will have acted to protect authors to the greatest extent possible."[18]

The other significant entertainment law initiative to pass the legislature was the "Piracy Protection Act."[19] The legislation was initiated by Attorney General Cuomo and enhances penalties to combat multimedia piracy. With movie and live theater piracy rife in New York, this bill amends the Penal Law to establish the crime of "unlawful operation of a recording device in a motion picture or live theater."

The "Piracy Protection Act" had not been acted upon by the governor as of the time this article was written. While it is always risky to speculate on whether a governor will approve legislation, this bill does not appear to be particularly controversial and is likely to be approved.

Sports Law

Apart from horse racing, which given its strict state regulation is treated separately in the accompanying tables, this was not a busy year for sports legislation. The one bill to pass both houses established the Empire State Baseball Trails program. With 13 minor and independent league teams in New York, this legislation requires the state to promote these teams as part of a coordinated baseball trail program.[20] The legislation was vetoed by Governor Paterson.[21]

Other legislation to limit the use of metal bats, to legalize and regulate mixed martial arts competitions, and to regulate boxing were unsuccessful.

Horse Racing

Horse-racing legislation was an entirely different matter. The legislature enacted laws to grant the New York Racing Association a 25-year franchise to continue operation of thoroughbred racing at the Saratoga, Belmont and Aqueduct racetracks.[22] At the conclusion of the session, the legislature passed further legislation to clean up its original legislation on the franchise.[23] It also lowered the state tax on video lottery terminals installed at most of the state's racetracks.[24] The state authorized a takeover of New York City OTB by New York State. While New York City OTB will continue as a separate identity, its board will be composed entirely of state-appointed members, and its profits will flow to the state.[25]

The legislature provided funding to Cornell University to fund new equipment to test for anabolic steroids in race horses,[26] and it provided tax breaks for a developer in the Catskills who wished to move harness racing from Monticello Raceway to a new Concord Hotel that he will be constructing.[27]

As a practical note, much of the information on New York legislation is available on the Internet from the New York State legislative Web sites.[28]

Endnotes

1. Cal Stats 2007 ch 439. *See also Shaw Family Archives Ltd. v. CMG Worldwide, Inc.***,** 486 F. Supp. 2d 309 (S.D.N.Y. 2007).
2. James T. Madore, *Celebrities Seek Shield after Death,* Newsday, June 12, 2008 Pg. A 18.
3. Irene Jay Liu, *Celebrity Legislation Gets Dose of Star Power*, Albany Times Union, June 11, 2008 Pg. A3.
4. S6005-A; *see also Think This One Through*, Buffalo News, June 23, 2008.
5. New York State Senate, Introducer's Memorandum in Support S. 6807 C.
6. "Governor Paterson Signs Bill Expanding Tax Credit for New York State Film Productions,'" Press Release, April 23, 2008.
7. L. 2008, Ch. 66.
8. 9 N.Y.3d 501 (2007).
9. *Id.* at 504.
10. *Id.*
11. Libel tourism has been considered the choice of suing in a jurisdiction with libel laws favorable to the plaintiff. See Raymond W. Beauchamp, Note: *England's Chilling Forecast: The Case for Granting Declaratory Relief to Prevent English Defamation Actions from Chilling American Speech*, 74 Fordham L. Rev. 3073 (2006).
12. *Ehrenfeld supra* note 8 at 506.
13. *Id.*
14. *Id.* at 508.
15. *Ehrenfeld v. Mahfouz*, 518 F.3d 102 (2nd Cir. 2008).
16. New York State Senate, Introducer's Memorandum in Support of S6687C.
17. CPLR 302.d, added by L. 2008, Ch. 66.
18. Governor's Approval Message, Number 5 of 2008.
19. L. 2008, Ch. 639.
20. S. 8560, A. 11288.
21. Veto Memo 101.
22. Ch. 18, note 19 *supra*.
23. S. 8709, A. 11502-A.
24. L. 2008, Ch. 18.
25. L. 2008, Ch. 115.
26. S .7866-A, A. 11683.
27. S. 8700, A. 11744.
28. *See* http://assembly.state.ny.us/leg/ and http://public.leginfo.state.ny.us/menuf.cgi.

A Review of Action on Arts, Entertainment and Sports Legislation in the New York State Legislature in 2008

Arts and Entertainment Legislation Enacted or Passed Both Houses[1]

1. S6957 GOLDEN A10105 Rosenthal

New York City
TITLE…..Permits the City Center of Music and Drama, Inc. to rename the New York State Theater building.

Chapter 48.

2. S6687-C SKELOS A9652-B Lancman

Civil Practice Law and Rules
TITLE…..Relates to personal jurisdiction and enforceability of certain foreign judgments in cases involving defamation. This is the libel tourism legislation.

Chapter 66.

2. S6807-C BUDGET A9807-C Budget

Budget Article VII (Internal # 23 - 2008)
Budget Bills
TITLE…..Enacts into law major components of legislation necessary to implement the education, labor and family assistance budget for the 2008-2009 state fiscal plan. This bill contains the film production tax credit.

Chapter 57.

3. S7760 FARLEY A11398 McEneny

Education Law
TITLE…..Relates to the state museum and collections made by staff.

4. S8201-A PADAVAN A11184-A Lentol

Attorney General # 5
ON FILE: 06/02/08 Penal Law
TITLE.....Creates the piracy protection act.

Passed both houses.

5. S8650 MALTESE A11719 Rules (Brodsky)

Education Law
TITLE…..Enacts provisions governing the ownership and management of properties owned by or lent to museums other than the state museum; repealer.

Ch. 220.

Sports Legislation Enacted or Passed Both Houses

1. S8560 JOHNSON A11288 Millman

Economic Development Law
TITLE.....Establishes the Empire State Baseball Trails program.

Horse Racing Legislation Enacted or Passed Both Houses

1. S1047-B LARKIN A6594-B Gunther

Racing, Pari-Mutuel Wagering and Breeding Law
TITLE…..Provides for the breeding fund's distribution of its revenues for specified purposes.

Ch. 429.

2. S3898 LARKIN A7738 Pretlow

Departmental Bill # 68
New York State Racing and Wagering Board (Internal #5 - 2007)
Racing, Pari-Mutuel Wagering and Breeding Law
TITLE…..Establishes a procedure by which race track license application denials may be heard.

3. S6950 BRUNO A9998 Pretlow

Authorizes the New York Racing Association to assume the state's thoroughbred racing franchise—makes additional changes in the state's video lottery legislation.

Chapter 18.

4. S7866-A LARKIN A11683 Rules (Pretlow)

Racing, Pari-Mutuel Wagering and Breeding Law
TITLE…..Establishes a program to test for the presence of steroids in horses; provides for support services to backstretch employees.

Chapter 267.

5. S8549 LARKIN A11635 Rules (Pretlow)

Governor Program # 67
Racing, Pari-Mutuel Wagering and Breeding Law
TITLE…..Relates to the New York City Off-Track Betting Corporation.

Chapter 115.

6. S8700 BONACIC A11744 Rules (Gunther), S8697 BONACIC

Governor Program # 69
TITLE…..Relates to capital investments by certain licensed video lottery gaming operators; allows movement of Monticello Raceway to site of former Concord Hotel.

Chapter 286.

7. S8709 RULES A11502-A Rules (Pretlow)

Racing, Pari-Mutuel Wagering and Breeding Law
TITLE…..Relates to thoroughbred horse racing; repealer—basically a chapter amendment to Chapter 18.

Chapter 140.

Arts and Entertainment Legislation Passed One House

1. S131 PADAVAN A1847 Weprin

TITLE…..Provides that the retail value of certain DVDs and video tapes of a feature film shall be $1,000 or more for purposes of trademark counterfeiting in the second degree.

Passed Senate.

2. S1263-B VOLKER A2889-B Lentol

ON FILE: 01/09/08 Penal Law
TITLE…..Relates to the unlawful operation of a recording device in a motion picture or live theater.

Passed Senate.

3. S1327-A MALTESE 272-A Bing

Tax Law
TITLE…..Establishes an arts fund to receive contributions for the support of the New York State Council on the Arts.

Passed Assembly.

4. S2053 DEFRANCISCO A1111 Destito

Public Officers Law
TITLE…..Allows open meetings to be photographed, broadcast and recorded by audio or video means subject to reasonable rules.

Passed Assembly.

5. S2385 LEIBELL A5472 Galef

Public Officers Law
TITLE…..Relates to the ability of government agencies in New York to claim copyright protection.

Passed Assembly.

6. S 5693 FLANAGAN A8811 Alessi

Tax Law
TITLE…..Redefines the term "qualifying film production facility" as a facility containing a sound stage with a square footage of 1,000 feet.

Passed Senate.

7. S6175 FLANAGAN A2442 Brodsky

General Business Law
TTLE…..Prohibits acceptance of sham or chandelier bids by auctioneers without disclosure; requires absolute auction to sell to highest bidder.

Passed Assembly.

8. S8281-A MALTESE A11489-A Rules (Rosenthal)

Arts and Cultural Affairs Law
TITLE…..Relates to the board of trustees of the trust for cultural resources of the city of New York.

Passed Assembly as amended.

9. A2491-A Morelle (MS)

Arts and Cultural Affairs Law
TITLE…..Establishes the Arts and Artifacts Domestic Indemnity Act.
Passed Assembly.

Sports Legislation Passed One House

1. S63 PADAVAN A130 Clark

General Municipal Law
TITLE…..Provides that New York City may assess tickets for professional sporting events for use by city school district.

Passed Senate.

2. S1815 SKELOS A4377 Weisenberg

Penal Law
TITLE…..Establishes the class E felony of assault at a sports contest.

Passed Senate.

3. S2739 DEFRANCISCO A5536 Morelle

Penal Law
TITLE…..Establishes the class A misdemeanor of disruption of a sports contest.

Passed Senate.

4. S4276 HUNTLEY A758 Wright

TITLE…..Requires that the chairman of the State Athletic Commission be present to constitute a quorum or to conduct business.

Passed Assembly.

5. S6197 RATH A9144 Englebright

Economic Development Law
TITLE…..Creates the New York State Amateur Sports Development Advisory Council.

Passed Senate.

6. S6745 LANZA A9879 Titone

Public Service Law
TITLE…..Requires utilities to charge not-for-profit organized sports programs for youth residential rates.

Passed Senate.

7. S6769-A LANZA   A9839 Nolan

Education Law
TITLE…..Provides for random testing for anabolic steroids in athletes in public and private schools; appropriation.

Passed Senate.

Horse Racing Legislation Passed One House

1. S347-A LARKIN   A3385-A DelMonte

Racing, Pari-Mutuel Wagering and Breeding Law
TITLE…..Prohibits the issuance to, or holding of, thoroughbred track, harness track or video gaming licenses by persons convicted of moral turpitude felonies.

Passed Senate.

2. S579-A LARKIN

Racing, Pari-Mutuel Wagering and Breeding Law
TITLE…..Provides for account wagering on simulcast horse races within and without the state.

Passed Senate.

3. S1358-A LARKIN   3363-A DelMonte

Racing, Pari-Mutuel Wagering and Breeding Law

TITLE…..Increases the maximum fine, from $5,000 to $20,000, that can be imposed by the Racing and Wagering Board for violations relating to thoroughbred and harness racing.

Passed Assembly.

4. A. S1585-A LIBOUS

Racing, Pari-Mutuel Wagering and Breeding Law
TITLE.....Relates to the entering of horses in harness horse racing meetings by corporate officers, directors and executives, and their spouses.

Passed Senate.

5. S1725-C SABINI

Racing, Pari-Mutuel Wagering and Breeding Law
TITLE…..Provides for the amount to be paid by Off Track Betting corporations to regional harness tracks from certain simulcasting revenue.

Passed Senate.

6. S2721-A LARKIN

Racing, Pari-Mutuel Wagering and Breeding Law
TITLE.....Authorizes the Racing and Wagering Board to impose fines upon entities participating in thoroughbred race meetings or off-track wagering; non-patrons.

Passed Senate.

7. S2896 LARKIN A8230 Pretlow

Racing, Pari-Mutuel Wagering and Breeding Law
TITLE.....Establishes new guidelines for the issuance of licenses to conduct harness racing programs based upon the conducting of a minimum number of such programs.

Passed Assembly.

Other Arts and Entertainment Legislation

1. S2869-A SABINI   A5822 Rivera P

Arts and Cultural Affairs Law
TITLE…Prohibits the advertising and conducting of certain live musical performances.

No action.

2. A S 3738-A MALTESE   2746-A Morelle

Arts and Cultural Affairs Law
Title…Creates the New York State culture areas program.

Bill amended but no action taken.

3. S3766 GOLDEN

ON FILE: 01/09/08 Tax Law
TITLE…Establishes an Empire State film post-production tax credit.

No action.

4. S4977 GOLDEN   A2495 Morelle

Vehicle and Traffic Law
TITLE…Establishes distinctive license plates for the support New York state entertainment program.

No action.

5. S5479 LAVALLE

Tax Law
TITLE…Expands the scope of the definition of "qualified film production credit" for purposes of the Empire State film production tax credit.

No action.

6. S6005-A GOLDEN

Civil Rights Law
TITLE…Relates to the right of privacy and publicity for deceased persons.

Amended—no action taken—major talk.

7. S6976 GOLDEN

Tax Law
TITLE…Removes the cap on the aggregate amount of tax credits allowed pursuant to the Empire State film-production credit.

No action.

8. A292-A Morelle

Arts and Cultural Affairs Law
TITLE…Directs the state museum to develop a New York state fine arts collection.

Amended—but no action taken.

9. A1216 Latimer

Education Law
TITLE…Permits the use of public school buildings and grounds by film and media production companies; directs revenues from such use for local tax reduction.

No action.

10. A2443-A Brodsky

Arts and Cultural Affairs Law
TITLE…Provides for withholding a portion (five percent) of the resale price of certain works of fine art to provide royalties for artists.

Amended but no action taken.

11. A2492 Morelle

Arts and Cultural Affairs Law
TITLE…Relates to unlawful practices by a person soliciting and accepting fees for employment in show business; provides civil penalty of not more than $5,000 per violation.

No action.

12. A2787 Kolb

General Business Law

TITLE…Prohibits sale of explicit and violent video games to minors and requires labeling thereof.

No action.

13. A4045 Brodsky

Arts and Cultural Affairs Law
TITLE…Prohibits service charges in sales of theater tickets in certain cases and exclusive contracts with ticket agents by operators of certain entertainment venues.

No action.

14. A6124-A Lentol

Tax Law
TITLE.....Authorizes a digital media-production credit.

No action.

15. A6632 Brodsky

Public Authorities Law
Title…Authorizes the Power Authority of the state of New York to provide low-cost electric power to Broadway and off-Broadway theaters.

No action.

16. A6673-B Morelle

Tax Law
TITLE.....Authorizes an Empire State film post-production credit.

No action.

17. A8787-A Morelle

Executive Law
TITLE.....Establishes principles governing the management of state-owned Intellectual Property.

No action.

18. A8836-A Weinstein

Civil Rights Law
TITLE.....Relates to the right of privacy and publicity for deceased persons.

No action.

19. A9871 Weisenberg

Arts and Cultural Affairs Law

TITLE.....Provides that purchasers be provided a rain check for any event that is delayed in the aggregate for more than one hour.

No action.

Other Sports Legislation

1. S450 GOLDEN A5227 Towns

Boxing
TITLE.....Exempts white-collar boxing from regulation by the state boxing commission.

No action.

2. S1848 LAVALLE A 3534 Perry

Sports
TITLE.....Requires athletes who perform where spectators pay an admission fee to certify that they have not used performance enhancing substances in the preceding six months.

No action.

3. S2147 LIBOUS A 6062 Morelle

Education
TITLE.....Promotes interscholastic athletic programs and competition that provide equal opportunities to all students on the basis of athleticism, sportsmanship and performance.

No action.

4. S3749-A LAVALLE A5105-A Dinowitz

Education Law
TITLE.....Authorizes the Commissioner of Education to restrict the sale and advertisement of alcoholic beverages at certain sporting events.

No action.

5. S 5915-A LANZA 6705-A Weisenberg

General Business Law
TITLE.....Prohibits any little league from allowing its participants to use any bat other than one made from wood.

Amended in both houses—no action taken.

6. A424 Morelle

Boxing
TITLE.....Reconstitutes the composition of the State Boxing Commission to include two additional members.

No action.

7. A1239 Paulin

Boxing
TITLE.....Relates to which organizations may sanction martial arts competitions.

No action.

8. A1920 Seminerio

Boxing
TITLE.....Prohibits boxing, sparring or professional wrestling matches or exhibitions between male and female contestants.

No action.

9. A2127 John

Sports
TITLE.....Restricts financial assistance to the renovation of any stadium and sports and entertainment complex used by a National Football League franchise.

No action.

10. A2696-A Morelle

Boxing
TITLE.....Requires the Law Revision Commission to review the boxing, sparring, and wrestling laws and make recommendations regarding changes to such laws.

Amended but no action taken.

11. A5224 Tedisco

Boxing
TITLE.....Imposes additional requirements upon persons who regulate, promote or conduct boxing matches.

No action.

12. A6392 Benjamin

Boxing
TITLE.....Places a moratorium on professional boxing and licensing pending an investigation on the safety and health of boxers by a temporary task force.

No action.

13. A6691 McDonough

General Obligations Law
TITLE.....Prohibits the use of non-wood bats in certain organized baseball and softball games in which minors are participants.

No action.

14. A7340 Lafayette

Arts and Cultural Affairs Law
TITLE…..Prohibits the use of “New York” or abbreviations by sports franchises which do not play home games in New York; limits sale of merchandise by such franchises.

No action.

15. A7881 Crouch

Boxing
TITLE.....Relates to the regulation of mixed martial arts.

No action.

Endnote

1. This information was accurate as of October 1, 2008.

Bennett Liebman is the Executive Director of the Government Law Center of Albany Law School. From July 2007 through December 2007, he served as the Acting Director of the Government Law Center. He has served as the Coordinator of the Government Law Center’s Program on Racing and Gaming Law since the program was established in February of 2002. He teaches courses on Sports and the Law and Government and Gambling.

Mr. Liebman served as a commissioner at the New York State Racing and Wagering Board from 1988 through 2000. Prior to his service at the Racing and Wagering Board, Mr. Liebman served as Assistant Commissioner for Legal Affairs at the NYS Department of Taxation and Finance. He previously served as Special Deputy Counsel to the Governor and as Counsel to then-Lieutenant Governor Mario Cuomo.

Mr. Liebman is a *summa cum laude* graduate of Union College and a *cum laude* graduate of New York University School of Law. His articles have appeared in numerous legal journals and newspapers, among them the *New York Times*, the *Baltimore Sun*, the *New York Daily News*, and the *Boston Herald*.

Television and Radio Update

By Barry Skidelsky

The past few months have seen some interesting developments in the business and legal worlds of those involved with the creation or acquisition of audio and video content destined for distribution by electronic media, including: the creation of a satellite radio monopoly resulting from the merger of XM and Sirius, unprecedented Federal Communications Commission ("FCC" or "Commission") regulation of the Internet, new legislation in New York State limiting broadcaster non-compete covenants, and violent video-games, and federal agency and court actions concerning indecent programming, copyrights and more.

XM-Sirius Merger

On July 25, 2008, by a vote of 3-2, the FCC approved an application to merge the XM and Sirius satellite radio companies, finding that conditions imposed and certain "voluntary" commitments would offset the anti-competitive harms that would otherwise likely result from the combining of our country's only two satellite radio services.

Pursuant to separate consent decrees concurrently made, the applicants agreed to "voluntarily" contribute approximately $20 million to the U.S. Treasury, in part regarding the unauthorized use of terrestrial FM repeaters (which also may not be used to distribute local content). The FCC also prohibited the merged entity from entering into agreements that would bar any terrestrial radio station from broadcasting live local sporting events.

Other conditions imposed, which must continue for at least three years after consummation of the merger, include: capping prices subject to certain pass-throughs, allowing consumers the ability to select programming on an *a la carte* basis, reserving at least four percent of capacity for use by non-commercial educational and other "qualified entities," and requiring inter-operable receivers to be offered in the retail after-market (which the Commission previously but unsuccessfully attempted to mandate).

The merger approval order (which is subject to pending reconsideration requests) also prohibits the making of any agreement that would either grant an equipment manufacturer an exclusive right to manufacture and sell satellite radio receivers, or that would prohibit any manufacturer from including in any such receiver terrestrial radio functionality or compatibility with other audio technology, such as iPods. On August 25, 2008, the FCC released a Notice of Inquiry on whether new satellite radio receivers should be required to include digital HD radio capabilities.

Comcast and Net Neutrality

On August 1, 2008, also by a vote of 3-2, the FCC approved an enforcement order against Comcast, the nation's largest cable provider, agreeing with complaints filed by non-profit advocacy groups that Comcast—in its role as an Internet Service Provider ("ISP")—was delaying certain subscribers' downloads and blocking their uploads at all times, regardless of the amount of congestion on the network or the size of the files.

The FCC suggested an anti-competitive motive for Comcast in slowing down or blocking videos that users might otherwise watch (and pay for) on cable television, including Comcast's Video-On-Demand ("VOD") service. While the Commission did not impose any fine against the cable giant, it did tell Comcast to stop the practice and to disclose to its subscribers how it is going to manage traffic going forward.

This unprecedented government action represents a milestone in the highly partisan debate over Net neutrality, the principle that all Internet traffic should be treated equally. Several attempts to write Net neutrality into law have failed in Congress, and until this enforcement order, the FCC's actions on the issue had been limited to holding hearings and seeking public comment.

In part because the FCC's three-year-old Internet principles (which declared that users should be entitled to access lawful Internet content and run online applications, services and devices of their choice) never went through its formal rulemaking process, questions have been raised about FCC jurisdiction and the enforceability of its order.

This obviously invites the possibility that Comcast could challenge the ruling in court, although as of this writing no appeal has been filed. The outcome of any litigation, while highly uncertain, would nonetheless set the stage for how President-Elect Obama and Congress might deign to treat the issue of Net neutrality. Comcast and other cable operators have recently publicly announced that they are considering so-called consumption-based billing, where Internet subscribers are charged based on usage rather than a flat fee.

Cablevision and Copyright

On August 4, 2008, in a different legal action involving another large cable operator, New York-based Cablevision, the U.S. Court of Appeals for the Second Circuit (reversing a prior decision of the U.S. District Court for the Southern District of New York) held, in *Cartoon Network et al. v. Cablevision et al.*,[1] that the cable operator's Remote

Storage Digital Video Recorder ("RS-DVR") system does not directly infringe the copyright of program providers.

Cablevision's RS-DVR system lets customers store recorded television shows on a central server, rather than on a hard drive in the customers' homes, like standard DVRs such as TIVO.

The Second Circuit held that "because each RS-DVR playback transmission is made to a single subscriber using a single unique copy produced by that subscriber, we conclude that such transmissions are not performances to the public and therefore do not infringe any exclusive right of public performance." The appellate court also held that the RS-DVR system's copying of 1.2 seconds at a time of program content into system RAM, for a period of 0.1 seconds, did not meet the definition of a "copy" in the Copyright Act, because the copies were not embodied "for a period of more than transitory duration."

Of particular interest in this ruling is its determination that the Ninth Circuit opinion in *MAI Systems Corp.*[2] failed to address the duration requirement for determining whether a copy is sufficiently fixed. The Second Circuit concluded that while computer RAM copying may sometimes result in the creation of a "copy" within the meaning of the Copyright Act, it does not always do so as a matter of law.

Internet Radio

In light of the Second Circuit's decision in the Cablevision case, the U.S. Copyright Office extended the deadline for comments in its pending Notice of Proposed Rulemaking (NPRM) to determine if—in addition to royalties payable to ASCAP, BMI and SESAC for the public performances of musical compositions—a royalty is also due for reproductions of the composition made by Internet radio Web-casters.

This Copyright Office proceeding was commenced to determine if the statutory royalty of Copyright Act Section 115—which deals with the creation of Digital Phonographic Deliveries (DPDs)—is implicated by the RAM and buffer copies made by real-time streaming services.

While the Second Circuit essentially answered this question in the negative, finding that there is no "fixation" of copies in the RAM and buffers, the Copyright Office reached the opposite conclusion in its NPRM. The seemingly contradictory conclusions demonstrate the complexity of today's issues in copyright law that the advancement of modern digital technologies has wrought.

Both traditional radio broadcasters and new media Web-casters have been obviously unhappy with the seemingly never-ending battle over appropriate copyright royalties payable for musical compositions and recordings "served" on-air and online. Similar dissatisfaction and uncertainty exists concerning how AFTRA and SAG voice talent should be paid in the digital age, affecting commercials played online and more.

Indecent Programming

The federal appellate court system has also been busy of late dealing with, again, the issue of indecent broadcast programming.

Currently pending at the U.S. Supreme Court, which has not examined this issue since its *Pacifica* ruling 30 years ago[3] (involving George Carlin's routine "Seven Dirty Words"), is a review initiated by the FCC stemming from the Second Circuit's 2007 decision to throw out the Commission's actions fining Fox and other television stations for so-called "fleeting expletives," such as those aired during live broadcasts of the Billboard Music Awards and Golden Globes shows. Although the Second Circuit went out of its way to question the constitutional basis of FCC regulation in this area, it more narrowly based its decision on a finding that the Commission's action was arbitrary and capricious because the agency failed to provide a reasoned explanation for departing from its own precedent.

On July 21, 2008, the Third Circuit released a similar decision overturning the FCC's fine of CBS Television for its broadcast of the 2004 Superbowl half-time show, which involved an unscripted Janet Jackson "wardrobe malfunction" that partially exposed one of her breasts for 9/16ths of a second. Supreme Court briefs were filed in August, with several *amici* throwing their weight against the federal government. In addition to the usual suspects (such as other television networks, the ACLU, the DGA and AFTRA), a trio of former FCC Chairmen—including Newton Minow (who in the 1960s described television as a "vast wasteland"[4]), Mark Fowler and Jim Quello—asked the Supreme Court to strip the FCC of power to regulate indecency entirely.

The former FCC honchos submitted that the Commission "has radically expanded the definition of indecency beyond its original conception; magnified the penalties for even minor ephemeral images or objectionable language; and targeted respected television programs, movies and even non-commercial documentaries."

Essentially saying that this thing has gotten way out of control, the Chairmen also argued that broadcasting is no longer uniquely pervasive or accessible to children, given the Internet and today's multi-channel media world—all to the dismay of so-called "family values" organizations such as the Parents Television Council, a driving force behind the rise in the number of indecency complaints filed with the FCC. Had George Carlin not recently died, this author would have loved to have heard his opinion about all of this and perhaps have worked with him drafting his *amicus* brief.[5]

Lastly, the *amici* in the Fox case also urged the Supreme Court to go beyond addressing the narrow question of whether the FCC violated the Administrative Procedures Act (by not giving broadcasters sufficient notice of its decision to change position and to now find fleeting expletives indecent), but instead to directly focus on the constitutional issues at the heart of this case. Oral argument in *Fox v. FCC* was heard in the Supreme Court on November 4, 2008.

Years ago, Congress tried to regulate indecency on the Internet through the Child Online Protection Act (COPA), claiming that the regulation of indecent content online was likewise necessary to thwart potential harm to children. However, because of the sweeping nature of that law's restrictions, several courts have repeatedly invalidated the COPA—which law has never taken effect but rather has been enjoined virtually since its enactment.

Most recently, on July 22, 2008, the Third Circuit upheld a district court ruling finding that COPA violated the First Amendment rights of Web site operators, as the government had not shown that the Act's provisions were the least restrictive means of accomplishing the government's objectives in protecting children from such allegedly harmful material.[6] Perhaps the Supreme Court will follow this decade-long line of COPA cases in deciding the Fox case.

Also of interest is the somewhat ironic fact that while all of this indecency litigation is playing out in the federal court system, in other contexts the FCC continues to consistently reject complaints filed about changes in radio formats and dropped programs, citing section 326 of the Communications Act (which prohibits the Commission from exercising any power of censorship over broadcast station programming) and the broad discretion licensees are entitled to in the scheduling, selection and presentation of programming.

Adding to this mess surrounding government regulation of media content are the FCC's recent efforts to also protect minors from obesity and violence (in connection with which sugary and fast food commercials, Hip-Hop music and violent films all come quickly to mind), although at this point in time the Commission is merely "encouraging voluntary self-regulation" by the media industry.

New New York Laws

New York State, meanwhile, recently enacted legislation intended to protect minors from violent and indecent content in video games. On July 21, 2008, Governor Paterson signed a bill (no. A11717) that in part amends the New York State General Business Law (effective September 1, 2010) to prohibit the retail sale of video game consoles unless they contain technology that permits owners to block access to certain games based upon their content or ratings (i.e., "parental controls").

The new law also requires video games sold at retail stores to bear labels describing their content and it establishes the Advisory Council on Interactive Media and Youth Violence, tasked to study and make recommendations regarding the relationship, if any, between youth violence and interactive media.

On August 5, 2008, New York's governor also signed into law "The Broadcast Employees Freedom to Work Act," which provides that certain non-compete agreements made as conditions of employment by broadcast employees (excluding management) are void and unenforceable as against New York State public policy. The Act also provides that its provisions cannot be waived.

This new law, which was the subject of lobbying by AFTRA and other unions, amends our state's Labor Law and represents a major new statutory development in New York, which traditionally has left the enforceability of non-compete covenants to the courts. However, it also raises a host of interpretive and practical questions, which are made more difficult by a sparse legislative history.

Non-Competes

Several states (including Connecticut, Massachusetts, Maine, Arizona and Illinois) have adopted similar laws, while other states, such as California, have general prohibitions on non-competition covenants. On August 7, 2008—in a case involving a CPA who had worked for the accounting firm Arthur Andersen—California's highest court struck down several lower court decisions that previously whittled away at that state's strict ban on employee non-compete agreements.[7] A common theme throughout all of this is open competition and employee mobility (especially important in this era of media consolidation).

Also of interest in this realm is a May 2008 decision by the FCC,[8] in which a Virginia broadcaster was fined for enforcing a non-compete agreement that was made in connection with the prior sale of a radio station. The agreement prohibited the seller, in the event he ever acquired another radio station in the same market, from competing with the buyer in a news-talk format. After the closing, the seller did acquire another station in the market and adopted a format that a local court, upon request of the buyer, enjoined after finding the non-compete clause applicable.

At that point, the seller filed a complaint with the FCC, arguing that, by obtaining the injunction, the buyer had engaged in an unauthorized assumption of control of the seller's new station without any prior FCC approval as required. The FCC agreed with the seller and fined the buyer $8,000. The Commission concluded that the court could only determine the enforceability of the clause under state law, but that the FCC could decide (as it did) that the non-compete agreement could not be enforced through an injunction without violating FCC rules about station control (which are generally concerned with programming, personnel and finances). This is quite confusing, as the buyer, caught in a catch-22, is a winner in court and a loser at the FCC.

Digital Television

No Television and Radio Update would be complete without a reminder that on February 17, 2009, by statute, all full power television stations in the U.S. will cease analogue transmissions. Cable and satellite subscribers generally will be unaffected, but television sets that receive signals over the air may no longer work (absent a digital tuner or special set-top box, for which the government has been offering discount vouchers). Despite government and industry awareness campaigns, much confusion prevails surrounding the digital television conversion.

Part of that confusion also involves the FCC's apparent rush on Election Day,[9] following intense lobbying by a coalition of several large technology companies, to allow a new breed of unlicensed wireless devices to use the so-called "white spaces" or buffer spectrum between television channels in order to provide broadband Internet access and related services. Television broadcasters, as well as wireless microphone manufacturers and users (such as those in Broadway theatres, concerts and sporting events), criticized the Commission's decision citing procedural, signal interference and other concerns.

Of course, Election Day 2008 was historic for another and better-known reason: Barack Obama's victory. Traditionally, FCC Commissioners (who are appointed by the President) have often split decisions along party lines. President-Elect Obama will have the opportunity to fill at least two FCC Commissioner appointments due to term expirations, which will tilt the balance of power at the FCC from Republicans to Democrats. Likewise, the power is shifting in Congress. All of this generates much speculation as to what will happen next and when.

Conclusion

Old laws and old business models are being transformed by technology, and with a new President and Congress, the pace of change is bound to accelerate. To keep up and succeed, helping our clients find creative solutions to complex issues has become more important than ever.

Endnotes

1. *The Cartoon Network LP, et al., v. CSC Holdings, Inc.* and *Cablevision Sys. Corp.*, No. 071480-cv (L) (2d Cir. August 4, 2008), *available at* http://www.ca2.uscourts.gov:8080/isysnative/RDpcT3BpbnNcT1BOXDA3LTE0ODAtY3Zfb3BuLnBkZg==/07-1480-cv_opn.pdf#xml=http://www.ca2.uscourts.gov:8080/isysquery/irl7d48/2/hilite.
2. *Mai Systems Corp. v. Peak Computer, Inc.*, 991 F.2d 511 (9th Cir. 1993).
3. *F.C.C. v. Pacifica Foundation*, 438 U.S. 726.
4. Newton N. Minow, "Television and the Public Interest," address before the National Association of Broadcasters, in Washington, D.C. (May 9, 1961), *available at* http://www.americanrhetoric.com/speeches/newtonminow.htm (last visited on September 26, 2008).
5. I would have been particularly interested to get Carlin's take on President Bush's use of the "S word," uttered and broadcast live without realizing that his microphone was on when discussing Mideast problems with British Prime Minister Tony Blair at the G-8 summit in 2006 (for which no broadcaster was ever fined or even admonished by the FCC, despite the agency's practically zero tolerance for use of such word).
6. *American Civil Liberties Union (ACLU) v. Mukasey*, U.S. Court of Appeals (3d Cir. July 22, 2008).
7. *Edwards v. Arthur Anderson LLP*., 2008 Cal. LEXIS 9618.
8. Mid-Atlantic Network [DA 08-1091].
9. See FCC News Release dated November 4, 2008, summarizing adoption of a Second Report & Order (FCC 08-260) concerning the unlicensed use of television white spaces, the full text of which was not released as of this writing.

A former broadcaster and musician, now an attorney with his own private practice in New York City, Barry Skidelsky co-chairs both the Television and Radio Committee of the EASL Section and the New York chapter of the Federal Communications Bar Association, whose members practice at the FCC in Washington. In addition to providing legal services nationwide for clients principally in media, entertainment and technology, Barry also offers services as an arbitrator, bankruptcy trustee or receiver in those fields. Contact Barry at (212) 832-4800 or bskidelsky@mindspring.com.

Sports Committee Report

By David H. Faux

On September 10, 2008, EASL's Sports Committee co-sponsored a unique event with Gleason's Boxing Gym—a two-credit MCLE program focused exclusively on boxing and the law. "Punch / Counterpunch: Lawyering for the Boxer" presented three panelists from various perspectives of the boxing industry. Gleason's Gym has operated since 1937, quickly establishing a reputation for producing excellent boxers, such as Jake "The Bronx Bull" LaMotta, Phil Terranova and Jimmy Carter. Muhammad Ali trained there to fight Sonny Liston. Riddick Bowe, Mike Tyson, Zab Judah and Shane Mosley trained there as well. However, as owner Bruce Silverglade pointed out in his introduction, other than full-time boxers, lawyers make up his largest client base.

The first panelist was James W. Leary, a member of the New York State Department of State Office of General Counsel, where he provides legal support to the New York State Athletic Commission. Prior to joining the Department of State, he served as an Appellate Court Attorney in the Third Department. He gave an overview of how boxing is regulated in New York State, with particular focus on the scope of the Commissioner's authority.

The second panelist was David Berlin. He led attendees through basic provisions of typical terms in various boxing contracts with an emphasis on variations among different jurisdictions. Specializing in criminal defense, Mr. Berlin also represents numerous boxing personalities in various capacities. Such past and present clients include Teddy Atlas, Don Elbaum, Michael Moorer, Chika Nakamura. He is currently representing Raul Frank in a case against the New York State Athletic Commission and manager James Deoria in a case against the Pennsylvania State Athletic Commission.

The final panelist was Patrick C. English, who has represented numerous World Champions and other boxers in various capacities since 1982. Among the boxers he has represented are: Lennox Lewis, Evander Holyfield, Chris Byrd and Felix Trinidad. He has litigated many boxing related cases, including *Duva v.World Boxing Association*, *Lewis v. World Boxing Council*, and *New Jersey Sports Productions, Inc. v. Don King Productions, Inc.* Mr. English has served on the National Association of Attorneys General Boxing Advisory Committee and on the New York Athletic Commission Advisory Panel.

The panel was moderated by EASL's Second District Representative, David H. Faux, and attended by approximately 40 lawyers and others connected with the boxing industry. Before, during, and after the panel, attendees were able to watch active training throughout the gym. Afterwards, most of the crowd remained to talk and network.

Stay tuned for more EASL events in Brooklyn in the future.

David H. Faux is the Director of Business Affairs at the Dramatists Guild of America, Inc. He is also serving his second term as EASL Second District Representative, liaising between the EASL Executive Committee and lawyers in Brooklyn and Staten Island. He can be reached at dfaux@dramatistsguild.com.

Upcoming *EASL Journal* Deadline:
Friday, January 9, 2009

Whatever Happened to the "Red Flag" Test?: Knowledge of Infringing Activity On—and the Burden to Police—User-Generated Content Sites After *CCBill, Visa, Io and eBay*

By Frank P. Scibilia and Vanessa Lan

A multitude of Internet sites and services host or store on their servers, and transmit to the public, so-called "user-generated" audio-visual and other content. Most of these sites and services index and / or provide to users the ability to search the content. Most earn revenue from advertising that appears in connection with the content (and some also earn a portion of revenue that the users themselves charge for viewing their so-called "premium content"). Most reformat the content to comply with the site's compression format and some also extract or create thumbnail reproductions or "stills" from the content—arguably implicating the reproduction and derivative works rights.

Of course, a large portion of the so-called "user-generated" content being made available on and via these sites and services was not "generated" by users at all, but rather consists of unlawful reproductions of audiovisual and other material created and / or owned by others with the exclusive right to reproduce, distribute, and create derivative works from that material.

Some of these "user-gen" sites (which include video distribution sites, as well as so-called "social networking sites") have pointed to section 512(c) of the Digital Millennium Copyright Act (DMCA) as a "defense" to claims that they are liable under secondary copyright liability theories for the infringing acts of their end users.[1] They have claimed that the DMCA provides a regime whereby the copyright owners are required to monitor and police the infringing activity on the sites, and provide the sites with notices that list the specific infringing files being exploited on the sites, whereupon the sole responsibility of the site manager is to disable or block access to those specific infringing files (and do no more).[2] These arguments, however, are not consistent with the language of the statute, the legislative history, or the common law upon which the statute was based. Nor do they "encourage responsible behavior and protect important intellectual property rights," two of the goals of the DMCA safe harbor legislation.[3] Rather, they put copyright owners—who are hardly in as good a position to police the Web sites as are the Web sites themselves—in the untenable position of playing a game of "whack a mole," where immediately after a notice of 100 infringing files has been sent to a user-gen service, 200 more infringing files (many mere copies of the files that were the subject of a previously sent notice) appear. The Web sites' pretense that they are in compliance with the DMCA is cynical, given that they are fully aware that the viral nature of their business assures that copyright owners will always be at least one or more steps behind continuing infringing activity.

Knowledge of Infringing Activity

Section 512(c) of the DMCA exempts an online service provider from liability for damages for (and significantly reduces the scope of injunctive relief in connection with) the "infringement of copyright by reason of the storage at the direction of a user of material that resides on a system or network controlled or operated by or for the service provider."[4] Yet that so-called "safe harbor" is not available ***unless*** the provider not only "does not have actual knowledge that the material or an activity using the material on [its] system or network is infringing," but also "in the absence of such actual knowledge, ***is not aware of facts or circumstances from which infringing activity is apparent,***" ***and***, "upon obtaining such knowledge ***or awareness***, acts expeditiously to remove, or disable access to, the material."[5] The service provider must, ***in addition***, meet the test of section 512(c)(1)(C), which requires that the service provider, upon being sent a notice that complies with section 512(c)(3) (a DMCA-Compliant Notice), expeditiously remove or disable access to the material that is the subject of the notice.[6] The tests are disjunctive: to benefit from the safe harbor the provider must not have failed to act to remove infringing material in the face of ***either*** actual or constructive knowledge, ***or*** a proper notice.

The legislative history of the section makes plain that Congress did not intend to limit knowledge of infringing activity sufficient to vitiate the safe harbor only to knowledge of specific infringing files to which the provider has been given notice via a DMCA-Compliant Notice. Rather, Congress intended to hold service providers accountable for infringing activity occurring on their sites generally, where that activity would be apparent to a "reasonable person" similarly situated. According to Congress, the knowledge standard "can best be described as a 'red flag' test":[7]

> [I]f the service provider becomes aware of a "red flag" from which infringing

> activity is apparent, it will lose the limitation of liability if it takes no action. The "red flag" test has both a subjective and an objective element. In determining whether the service provider was aware of a "red flag," the subjective awareness of the service provider of the facts or circumstances in question must be determined. However, in deciding whether those facts or circumstances constitute a "red flag"—in other words, whether infringing activity would have been apparent to a reasonable person operating under the same or similar circumstances—an objective standard should be used.[8]

Failure to act in the face of such a red flag is fatal to the liability limitation, regardless of whether any notice was sent.

> Section 512 does not require use of the notice and take-down procedure. A service provider wishing to benefit from the limitation on liability under subsection (c) must "take down" or disable access to infringing material residing on its system or network of which it has actual knowledge or that meets the "red flag" test, ***even if the copyright owner or its agent does not notify it of a claimed infringement***. [9]

As if that were not clear enough, Congress added: "For their part, copyright owners are not obligated to give notification of claimed infringement in order to enforce their rights."[10]

Section 512(c)'s "red flag" standard is consistent with the common law of contributory and vicarious copyright infringement that forms the basis for the provision.[11] It is also consistent with common sense. To accept the argument that a service need only take action to remove material in response to a DMCA-Compliant Notice—even in the face of rampant and obvious infringing activity taking place on the service—could result in essentially immunizing such a service even if it has actual (albeit general) knowledge that 99 percent of the files on the service are infringing, provided it does not have the requisite "specific" knowledge as to any single file (including where it has deliberately designed its service to avoid obtaining such knowledge, or has otherwise stuck its head in the sand). It would also be a disincentive for services to take commercially reasonable and technologically feasible measures—such as the fingerprinting and filtering measures discussed below—to prevent infringing files from being reproduced and distributed on and via those services. After all, why would a service remove those files that may make up the bulk of its content, or that may be the biggest draw to its service, if it can avoid doing so simply by adhering to a notice-and-take-down regimen?[12]

Quite unfortunately, several recent cases may further embolden such sites and services to continue making the argument that to avoid liability, they need only comply with DMCA-Compliant Notices and take down the specific infringing files listed therein, even where they have knowledge of obviously infringing activity occurring on their sites and the ability to prevent it. These cases water down the "red flag" test that is at the core of the DMCA's liability limitation compromise to the point that it is virtually meaningless, and are in error in that they ignore the clear intent of the statute.

The trend appears to have started in the Ninth Circuit with that Court's decision last year in *Perfect 10, Inc. v. CCBill LLC*.[13] In that case, Perfect 10, an adult Web site, sued CWIE, a provider of Web hosting and related Internet connectivity services, and CCBill, a company that allows consumers to use credit cards or checks to pay for subscriptions or memberships to e-commerce venues, under various secondary copyright liability theories for infringements of Perfect 10's copyrights by customers of CWIW and CCBill.[14] The Ninth Circuit upheld the district court's finding that those entities were entitled to the benefit of the 512(c) safe harbor despite substantial evidence that they were aware of several "red flags" from which infringing activity was apparent.

Perfect 10 had sent numerous notices of infringement to Thomas Fisher, the Executive Vice President of, and the designated agent to receive notices of infringement for, CWIE and CCBill. Perfect 10 also sent Fisher 22,185 pages of screen shots of infringing activity, cross-referenced by name of the Perfect 10 adult model in each infringed photograph. [15] The Ninth Circuit focused on the fact that these notices and screen shots were not DMCA-Compliant Notices, and ignored any role that they may have played in providing CWIE and CCBill with knowledge of infringing activity. [16] The Court stated that the "DMCA notification procedures place the burden of policing copyright infringement—identifying the potentially infringing material and adequately documenting infringement—squarely on the owners of the copyright," and that notice that fails to comply with section 512(c) cannot be deemed to impart awareness "of facts or circumstances from which infringing activity is apparent."[17]

Yet that should not be the case where, as was the case in CCBill, notice (albeit non-DMCA compliant notice) of the infringing activity sufficient to identify, locate and remove or block the infringing material ***was*** provided, and where, ***in addition to such notice***, there were numerous other indicia of infringing activity.[18] Perfect 10 alleged that CWIE and CCBill knowingly provided services to "illegal.net" and "stolencelebritypics.com," and that a disclaimer on "illegal.net" specifically stated that the posted material was copyrighted and that "illegal.net' had no right to them.[19] Perfect 10 further alleged that

CWIE and CCBill knowingly provided services to various password-hacking sites.[20] Yet rather than remand for a determination as to whether a reasonable person, when confronted with Perfect 10's allegations and the screen shots of infringing activity, along with Web addresses with names like "illegal.net" and "stolencelebritypics.com," would have conducted some investigation to determine whether Perfect 10's allegations were true—or even whether CWIE and CCBill actually did conduct such an investigation and discovered infringement but just chose to ignore it and stand on the technicalities of non-compliant DMCA notices—the Court hypothesized various reasons why the existing evidence might not necessarily have made CWIE and CCBill aware of infringing activity. Thus, the Ninth Circuit suggested that the words "illegal" or "stolen" "may be an attempt to increase [the] salacious appeal" of the content on those sites.[21] It noted that the disclaimer on "illegal.net" specifically stated that the Webmaster had the "right to post" the files (even though he admitted that they were copyrighted and he did not claim any right to them).[22] Furthermore, the Court said that passwords on hacking Web sites "could be a hoax, or out of date."[23] In offering up these possible explanations, it completely ignored the objective prong of the "red flag" test, i.e., whether all of those indicia and all of the notices, taken as a whole, would have made infringing activity apparent to a reasonable person operating under the same or similar circumstances as CWIE and CCBill.

The same Ninth Circuit panel that decided *CCBill* strayed even further from the language of the statute and its legislative history in the companion case, *Perfect 10, Inc. v. Visa Int'l Serv. Ass'n*.[24] Employing the classic bootstrap of citing as its only authority its own strained reading of the statute in *CCBill*, the Court there stated, "Congress addressed the issue of notice in the DMCA, which grants a safe harbor against liability to certain service providers, ***even those with actual knowledge of infringement***, if they have not received statutorily compliant notice."[25] This, of course, is not the law, as the statutory test is a disjunctive one, not a conjunctive one, and as the legislative history discussed above makes clear.[26]

In a case decided this summer, *Io Group, Inc. v. Veoh Networks, Inc.*, the Northern District of California struck another blow to the "red flag" test.[27] There, Io, an adult film company, sued Veoh, a user-generated video site, for copyright infringement.[28] The court granted Veoh's motion for summary judgment, concluding that Veoh was eligible for the section 512(c) safe harbor.[29] Io had alleged numerous "red flags," including that it was obvious that the works being uploaded by Veoh users were professionally created, that the uploaded films did not contain certain labels required by law to be placed in adult films (suggesting that the films were not created and uploaded by a legitimate producer of adult films), that one of the infringed films contained Io's trademark several minutes into the clip, that Veoh creates "screencaps" that extract several still images from each file, and that Veoh employees occasionally "spot check" videos after publication.[30] The court nevertheless determined that there was no genuine issue of material fact as to whether Veoh had actual or apparent knowledge of infringement.[31] Citing only an opinion out of the Western District of Washington, the court held that in determining whether a party has apparent knowledge, "the question is not 'what a reasonable person would have deduced given all the circumstances' . . . '[i]nstead the question is whether the service provider deliberately proceeded in the face of blatant factors of which it was aware.'"[32] Thus, like the court in *CCBill*, the *Io* court thereby completely ignored the objective prong of the "red flag" test, which demands that the court determine "whether infringing activity would have been apparent to a reasonable person operating under the same or similar circumstances" as the defendant.[33]

Outside of the Ninth Circuit, the Southern District of New York's highly publicized decision this past summer in *Tiffany Inc. v. eBay, Inc.* could prove to further muddy the water with respect to the "red flag" test. While *eBay* involved secondary trademark (not copyright) infringement liability, one footnote states: "Under copyright law, generalized knowledge that copyright infringement may take place in an Internet venue is insufficient to impose contributory liability."[34] While that is true as far as it goes—no one is seriously arguing that the fact that a service may know that ***some*** infringement ***may*** take place on its site, without more, gives rise to liability—where there are "red flags" from which infringing activity is apparent, the service must take some action to prevent such activity or it will be liable for it. Thus, the statements in *Tiffany* that the law "demands more specific knowledge as to which items are infringing and which seller is listing those items before requiring eBay to take action" and "does not impose a duty on eBay to take steps in response to generalized knowledge of infringement"[35] should not be distorted to imply that a user-gen service has no duty to take steps to prevent copyright infringement in the face of "red flags," particularly where, as discussed below, it has a right to stop or limit the infringing activity and the practical ability to do so.[36]

The Burden to Police

As noted above, even if the service provider meets each of the three conditions under section 512(c)(1)(A), it must also meet the test of section 512(c)(1)(B), which demands that the service provider "does not receive a financial benefit directly attributable to the infringing activity, in a case in which the service provider has the right and ability to control such activity."[37] "[A] defendant exercises control over a direct infringer when he has both a legal right to stop or limit the directly infringing conduct, as well as the practical ability to do so."[38] Note that there is some degree of overlap between this standard and the section 512(c)(1)(A) / contributory liability standard in that, under the latter, a site can "be held contributorily liable if it had knowledge that infringing [files] were available [on the site], could take simple measures to prevent further damage to . . . copyrights, and failed to take such steps."[39]

At least with respect to user-generated content sites, this raises the issue of the extent to which those sites should be required to police and stop or limit the distribution of infringing files using fingerprinting and filtering technologies.[40]

The court in *Io* noted that Veoh had "adopted means for generating a digital 'fingerprint' for each video file which enables Veoh to terminate access to any other identical files from ever being uploaded by any user."[41] In fact, it pointed to Veoh's fingerprinting as evidence that Veoh was policing its system "to the fullest extent permitted by its architecture," stating that "[o]nce content has been identified as infringing, Veoh's digital fingerprinting technology also prevents the same infringing content from ever being uploaded again."[42] The court did not, however, discuss under what circumstances content on Veoh was "identified as infringing" such that Veoh employed the fingerprinting technology. One might presume that it did so with respect to content as to which it received a DMCA-Compliant Notice, but the court did not go so far as to require Veoh to employ the technology to prevent the upload of all files that matched those named in a DMCA-Compliant Notice. For that reason, as well as the court's apparent reluctance to require Veoh to take steps in response to objective "red flag" criteria, it seems unlikely that at least that court would require that a service that had such technology use it to prevent any reasonably apparent infringing activity from recurring (that is, require the fingerprinting, filtering and blocking of "red flag" files).

Nevertheless, given the cost of infringement to copyright owners, the potential profitability of user-generated content sites, and the relatively low cost and widespread availability of content fingerprinting / filtering solutions, the authors would posit that all user-generated services should be required to implement such a solution "to stop or limit the directly infringing conduct."[43] Such sites should employ the solution to fingerprint all files listed in a DMCA-Compliant Notice, as well as all "red flag" files. For example, the site should use the solution to "disable access to infringing material residing on its system or network of which it has actual knowledge or that meets the 'red flag' test, even if the copyright owner or its agent does not notify it of a claimed infringement." [44]

In fact, these solutions can aid in policing infringement, i.e., in locating and pre-emptively excluding infringing materials. Content owners can provide digital files (including, where relevant, audio or video files) of all of the copyrighted content they wish to prevent from being uploaded to and distributed via the service; the service can create fingerprints of all of those files and can then (1) search for and remove or block all "legacy" files on the service matching those fingerprints, and (2) prevent files matching such fingerprints from ever again being uploaded.

To require the implementation and use of such solutions is consistent with the Ninth Circuit in *Amazon* remanding Perfect 10's contributory infringement claim to the district court to resolve the "factual disputes over whether there are reasonable and feasible means for Google to refrain from providing access to infringing images,"[45] as well as its conclusion that "without image-recognition technology, Google lacks the practical ability to police the infringing activities of third-party websites."[46] It is consistent with Judge Patel's modified preliminary injunction in *Napster*—upheld by the Ninth Circuit—ordering the Napster system to be shut down until Napster implemented a "non-text-based filtering mechanism."[47] It is also consistent with the Central District of California's holding in *Tur v. YouTube* that, with respect to user-generated sites, the "right and ability to control" prong of the section 512(c)(1)(B) / vicarious liability standard "presupposes some antecedent ability to limit or filter copyrighted material."[48]

In fact, it is even consistent with the decision in *eBay*, although that decision, again, contains some unfortunate language that will no doubt be distorted by those who wish to limit or even eliminate the burden on Web services to police their premises and prevent infringing activity (and do nothing other than respond to DMCA-Compliant Notices, which does not solve the problem and is not the outer limit of such services' obligation to prevent infringement). There, the court was highly focused on "who should bear the burden of policing Tiffany's valuable trademarks in Internet commerce."[49] The court concluded that "rights holders bear the principal responsibility to police their trademarks," even if eBay were better situated "to staunch the tide of trademark infringement."[50]

The facts of *eBay*, however, bear no resemblance to infringement of copyrights in digital files reproduced and distributed on or via user-generated content sites. The *eBay* court focused heavily on eBay's use of its "fraud engine," which identified "blatant instances of potentially infringing or otherwise problematic activity,"[51] as well as its VeRO Program.[52] Yet neither the fraud engine nor the VeRO Program—nor any other solution that eBay could have created—could determine whether a listed item was actually counterfeit. That determination could only be made by physically inspecting the particular piece of jewelry at issue, and the jewelry was never in the hands of eBay. On the other hand, a copy of each potentially infringing file ***exists on the user-generated content site***. It is, in effect, in the site's possession, and a filtering solution can determine whether such a file is actually infringing. It can be matched against fingerprinted files of copyrighted content that is not authorized for distribution on the service.

Conclusion

These cases might merely be examples of the ancient axiom that hard cases make bad law. After all, the *CCBill* and *Visa* cases pitted an adult Web site against credit card and payment services; the plaintiff in the *Io* case was also a purveyor of adult content. This might explain the cursory way in which the courts in both *Visa* and *Io* distinguished the defendants in those cases from Napster on the ground that in *Napster*, "the sole purpose of the Napster program was to provide a forum for easy copyright infringement."[53] Yet as Judge Kozinsky correctly noted in his *Visa* dissent, "*Napster* and *Grokster* are not the endpoint of this court's caselaw: Even though Google has many legitimate, noninfringing uses, *Amazon* held that it would be guilty of contributory infringement if it could modify its service to avoid helping infringers."[54]

Unfortunately, the holdings of these cases could lead to absurd results. Taken to their logical extreme, they could immunize the provision of obviously infringing material such as bootlegged copies of movies in current theatrical release with file names such as bootleggedcopyofthedarkknight.mpeg or justrippedcopyofporkandbeansbyweezer.mp3. As Professor Nimmer noted, in discussing *CCBill*, "[w]ith the eponymously named 'illegal' ruled inadequate to raise a red flag of illegality, it is difficult to imagine just how crimson one would have to be in order to qualify."[55] Moreover, to the extent these holdings incorrectly convert section 512(c) into a mere notice-and-take-down statute, and place the brunt of policing infringement on the copyright owners, they could also disincentivize those Web sites with the ability to prevent or limit infringement from taking commercially reasonable and technologically practical measures to do so, such as using fingerprinting technology to take down all infringing legacy content on the site of which it has actual knowledge or that meets the "red flag" test, and to prevent such content from ever again being uploaded.

Endnotes

1. *See, e.g., Io Group, Inc. v. Veoh Networks, Inc.*, No. C06-03926 (HRL), 2008 WL 4065872 (N.D.Cal. August 27, 2008); *Tur v. YouTube, Inc.*, No. CV064436 (FMC) (AJWX), 2007 WL 1893635 (C.D.Cal. June 20, 2007). The DMCA does not limit liability for direct infringements by these services, such as the infringements that may occur in connection with or as the result of the formatting, indexing, and extracting functions described above. *See, e.g.*, H.R. Rep. 105-551 (II), at 53 (1998); S. Rep. 105-190, at 43 (1998) ("Information that resides on the system or network operated by or for the service provider through its own acts or decisions and not at the direction of a user does not fall within the liability limitation of subsection (c)."). As the *Io* decision demonstrates, determining whether the information resides on the system through the provider's acts or at the direction of a user is not always an easy task.
2. *See, e.g.*, The Electronic Frontier Foundation's "Fair Use Principles for User Generated Video Content," *available at* http://www.eff.org/issues/ip-and-free-speech/fair-use-principles-usergen.
3. *See, e.g.*, Statements on Introduced Bills and Joint Resolutions on S. 2037, Statement of Mr. Leahy (May 6, 1998).
4. 17 U.S.C. § 512(c).
5. 17 U.S.C. § 512(c)(1)(A)(i)-(iii) (emphasis added). Even if the service provider meets each of the three conditions under that section, it must ***also*** meet the test of section 512(c)(1)(B), which demands that the service provider "does not receive a financial benefit directly attributable to the infringing activity, in a case in which the service provider has the right and ability to control such activity." 17 U.S.C. § 512(c)(1)(B).
6. 17 U.S.C. § 512(c)(1)(C).
7. S. Rep. 105-190, at 44; H.R. Rep. 105-551 (II), at 53.
8. *Id.*
9. S. Rep. 105-190, at 45; H.R. Rep. 105-551 (II), at 54 (emphasis added).
10. *Id.*
11. *See, e.g., Ellison v. Robertson*, 357 F.3d 1072, 1077 (9th Cir. 2004) (finding AOL liable for contributory infringement when it changed its contact e-mail address and missed e-mails noticing copyright infringement, since "a reasonable trier of fact could find that AOL had reason to know of potentially infringing activity"); *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 261 (9th Cir. 1996) (finding swap meet operator contributorily liable for sale of counterfeit tapes by its vendors after it received letters from the sheriff imparting generalized knowledge that infringing goods were being sold at its meet); *Microsoft Corp. v. EEE Bus. Inc.*, 555 F. Supp. 2d 1051, 1059 (N.D. Cal. 2008) (stating, "[a]n individual may be liable for contributory infringement even where she does not have actual knowledge of the infringing activity, but should have reason to know of the infringing conduct"); *Arista Records, Inc. v. Flea World, Inc.*, No. 03-2670 (JBS), 2006 WL 842883 at *14 (D.N.J. Mar. 31, 2006) (finding defendants incorrect in their proposition that knowledge of "specific infringements" is necessary for contributory infringement, since this argument runs contrary to past case law); *Playboy Enters., Inc. v. Russ Hardenburgh, Inc.*, 982 F. Supp. 503, 514 (N.D. Ohio 1997) (finding computer bulletin board service contributorily liable where it had "at least constructive knowledge that infringing activity was likely to be occurring"); *Sega Enters. Ltd. v. Maphia*, 857 F. Supp. 679, 686–87 (N.D. Cal. 1994) (finding bulletin board service operator contributorily liable even though it did "not know exactly when [copyrighted] games will be uploaded to or downloaded from" its service); *A&M Records, Inc. v. General Audio Video* Cassettes, 948 F. Supp. 1449, 1457-58 (C.D. Cal. 1996) ("[a]lthough there is no direct evidence that [defendant] knew he was contributing to the illegal copying of each of these 156 different sound recordings, the testimony at trial indicated that [he] was aware that he was contributing to the counterfeiting of many different sound recordings"); *RSO Records v. Peri*, 596 F. Supp. 849, 858 (S.D.N.Y. 1984) (finding knowledge of infringing use where "the very nature of color separation manufacture—the photographing of the packaging of copyrighted records and tapes—would suggest infringement to a rational person").
12. Indeed, in the *Napster* case, an internal memorandum produced in discovery revealed that Napster recognized that forcing copyright owners to send DMCA-Compliant Notices in order to enforce their rights would be "a seriously onerous task" which "would have little or no effect" on Napster (or the infringing activity occurring thereon). *A&M Records, Inc. v. Napster, Inc.*, Nos 00-16401 and 00-16403 (9th Cir. Sept. 8, 2000), Brief of Plaintiffs/Appellees at 36, available at 2000 WL 34018835.
13. 488 F.3d 1102 (9th Cir. 2007).
14. *Id.* at 1108.
15. *Id.* at 1112.
16. *Id.* at 1112–13.
17. *Id.* at 1113, 1114.
18. *See* S. Rep. 105-190, at 45; H.R. Rep. 105-551 (II), at 54 (service provider wishing to benefit from the limitation on liability under subsection (c) must 'take down' or disable access to infringing material residing on its system or network of which it has actual

knowledge or that meets the 'red flag' test, even if the copyright owner or its agent does not notify it of a claimed infringement").

19. *Id.* at 1114.
20. *Id.*
21. *Id.*
22. *Id.*
23. *Id.* Professor Nimmer characterizes the court's ruling in *CCBill* as "that the [red] flag's fabric must essentially whip against the face of the party to be bound (and probably raise a few welts in the process)." 3 M. & D. Nimmer, Nimmer on Copyright [hereinafter, "Nimmer"] § 12B.05[C][1] (2008). Indeed, by substituting its own hypotheses at the dispositive motion stage for a trial as to what CCBill actually knew about, or what a reasonable person in CCBill's position should have recognized was infringing activity, it effectively foreclosed any determination that any such "whipping" or "welting" had actually occurred.
24. 494 F.3d 788 (9th Cir. 2007).
25. *Id.* at 795 n. 4 (emphasis added).
26. *See* notes 8-11 and accompanying text.
27. *Io Group, Inc. v. Veoh Networks, Inc.*, No. C06-03926 (HRL), 2008 WL 4065872 (N.D. Cal. August 27, 2008).
28. *Id.*
29. *Id.* at * 20.
30. *Id.* at *14.
31. *Id.* at *13-15.
32. *Id.* at 14 (quoting *Corbis Corp. v. Amazon.com, Inc.*, 351 F.Supp.2d 1090, 1108 (W.D. Wash. 2004)).
33. S. Rep. 105-190, at 44; H.R. Rep. 105-551 (II), at 53. Note that Io did not send Veoh any notices of infringement, DMCA-compliant or otherwise, but proceeded straight to filing a complaint. Still, given the holding in *CCBill*, it is doubtful that sending non-compliant notices would have changed the *Io* court's holding. On the other hand, given the volume of traffic on user-gen sites like Veoh, it is doubtful that even sending DMCA-Compliant Notices would have solved Io's infringement problem. *See* n. 13, *supra.*
34. *Tiffany (NJ) Inc. v. eBay, Inc.*, No. 04 Civ. 4607 (RJS), 2008 WL 2755787, at n. 37 (S.D.N.Y. July 14, 2008).
35. *Id.* at *1, 43.
36. The Court in *eBay* noted that eBay had a business interest in common with Tiffany in assuring that "knock-offs" of trademarked products not be sold on its site. *Id.* at * 1. That commonality of interest appears a great deal less apparent with respect to Web sites purveying unlicensed copyrighted content.
37. 17 U.S.C. § 512(c)(1)(B).
38. *Perfect 10, Inc. v. Amazon.com, Inc.*, 508 F.3d 1146,1173 (9th Cir. 2007), quoting *MGM Studios, Inc. v. Grokster, Ltd.*, 545 U.S. 913, 930 (2005).
39. *Id.* at 1172.
40. For a description of digital video fingerprinting, see hhtp://en.wikipedia.org/wiki/Digital_video_fingerprinting. For a description of digital audio fingerprinting, see http://en.wikipedia.org/wiki/Audio_fingerprinting.
41. 2008 WL 4065872, at *3.
42. *Id.* at *19. Moreover, it was clear that Veoh was able to police its site and prevent certain files from being distributed when it wanted to, given that Veoh had, by the time the suit was filed, and on its own volition, terminated access to all adult content. *Id.* at *2.
43. 508 F.3d at 1172 (9th Cir. 2007), quoting *MGM, Inc. v. Grokster, Ltd.*, 545 U.S. at 930.
44. S. Rep. 105-190, at 45; H.R. Rep. 105-551 (II), at 54 (emphasis added).
45. 508 F.3d 1146 at 1172–73.
46. *Id.* at 1174.
47. *A&M Records, Inc. v. Napster, Inc.*, 284 F.3d 1091, 1097–98 (9th Cir. 2002). The injunction also required Napster to "continually search [its] index and block all files" that contained a work as to which Napster was given notice of infringement. *Id.* at 1096. *See also Napster, Inc.*, 239 F.3d at 1027 (holding that Napster must "affirmatively use its ability to patrol its system and preclude access to potentially infringing files listed in its search index").
48. 2007 WL 1893635, at *3.
49. *Tiffany*, 2008 WL 2755787, at *1.
50. *Id.* at *47.
51. *Id.* at *8.
52. *Id.* at *9–10.
53. *Visa*, 494 F.3d at 799 n. 5; *Io*, 2008 WL 4065872, at *18.
54. 494 F.3d at 811 n. 4 (Kozinsky, J., dissenting).
55. Nimmer § 12B.05[C][1].

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Conceptual Art: Where Does the Artwork Lie?

By Judith Bresler

Those who collect conceptual art take note: At times the art resides in a piece of paper—not in the work itself. The conceptual art movement, which emerged in the 1960s, holds that with art, the idea or concept is paramount and that the art's material form is strictly secondary and largely unnecessary.

Marcel Duchamp, a French artist of the DaDa movement, among other schools of art, was the patron saint of conceptual art. DaDa was an early Twentieth Century philosophical movement rooted in despair over the mass, mechanized and hitherto unprecedented killings of World War I. DaDa, which held that all moral and ethical values were rendered useless by the Great War, preached a kind of anti-art that, at times, was destructive. One example of DaDa art was Duchamp's "readymades." Readymades are generally common objects such as, in Duchamp's case, a bicycle wheel or a urinal, which the artist selects, signs, titles and then places into an art context such as a gallery, an art exhibition, or museum. Although Duchamp was creating his readymades as early as 1913, he was an artist ahead of his time, as his work was often rejected by other segments of the art community. It was not until the latter half of the Twentieth Century that Duchamp's ideas took root in what is known as conceptual art.

"The conceptual art movement, which emerged in the 1960s, holds that with art, the idea or concept is paramount and that the art's material form is strictly secondary and largely unnecessary."

This article will address issues involving two distinguished, and frequently collected, conceptual artists: Dan Flavin and Sol LeWitt.

Dan Flavin

As a conceptual artist of the mid-to-late Twentieth Century, the late Dan Flavin's medium of choice, in a nod to the mundane objects of Duchamp's readymades, was the ordinary industrial fluorescent light. From the beginning, this American artist's work fell into two distinct categories: (1) site-specific room installations (often temporary) and (2) smaller scale constructions of lights made in editions of three (the larger ones) or five (the smaller ones). It is this second category of works that is readily sold, maintained and collected.

When Flavin began to make multiples of his works in the 1960s and 1970s, he perfected his certification process. By the 1970s he began issuing certificates, each of which included a diagram of the work, a written description of the work, the notation "this is a certificate only," his signature and stamp. Along with the certificate came a guarantee of "restoration," which is fulfilled even today, after his death. If light bulbs burn out, they are replaced. If a work's hardware is worn out or damaged, the work will be restored—or remade for that matter—provided the purchaser has the certificate. Consider these two scenarios:

Scenario No. 1: *A gentleman acquires a small limited edition Flavin light sculpture for his contemporary art collection. After a number of years, he decides to sell it through Christie's auction house. Christie's examines the piece, sees that it is in excellent condition, and is pleased to accept it on consignment pending receipt of the Flavin certificate. Unfortunately, the gentleman, while preserving the art, has lost his certificate. Accordingly, Christie's advises him that his piece is considered worthless.*

Scenario No. 2: *A lady acquires a small limited edition Flavin light sculpture for her contemporary art collection. After a number of years, she has a fire in her apartment and her piece is badly damaged. Her certificate, however, was intact, having been placed in a bank vault. Accordingly, her Flavin was repaired and restored. She was then free, if she desired, either to continue enjoying her Flavin or to consign it for sale.*

Note that generally the Flavin Estate, adhering to the artist's priorities of protecting the editions and promoting the exercise of care of the pieces, will not restore a Flavin work if any of its hardware is missing. Moreover, the Estate will not issue replacement certificates. Flavin's certification process, given the technical ease with which some of his work can be duplicated, enables his Estate to maintain the integrity of his work. The lesson to be gleaned here as a collector of conceptual art is to hold on to the certificate and keep it in safe custody. It may be possible to restore the art, but it is not possible to replace the certificate.

Sol LeWitt

While the legacy of this late American artist spans both the minimalist and conceptual art movements, LeWitt is arguably best known for his *Wall Drawings*—a term of art encompassing paintings as well as drawings—of which more than 1,200 have been executed. As with other conceptual artists, LeWitt's work began with an idea. From this idea, he developed both a plan and a set of instructions, which are then carried out by teams of assistants under the supervision of a LeWitt "project manager." To animate his ideas, LeWitt made use of such media as paint, colored pencil, chalk and crayon, and he worked with a variety of linear directives as well as an array of geometric forms.

Each of LeWitt's *Wall Drawings* is identified by a number, for example, *Wall Drawing #164*. When such an artwork is sold, it is sold not as a finished work but rather as an idea: the buyer receives a certificate of authenticity that includes both a description of the artwork and a diagram. The buyer also receives an accompanying sheet of instructions. Substantial financial resources may be required to realize the work, as it will likely involve the hiring of a team of skilled professionals.

Yet what if the buyer, after a period of time, wishes to change residence? In such a case, the buyer is required to paint over the wall but then has the right to have the artwork reinstalled in his new residence by approved LeWitt assistants. If the certificate is ever lost or destroyed, that right is forfeited forever. (It is also, of course, a good idea for the buyer to hold on to the set of instructions for execution of the piece.) If the seller of a residence having a LeWitt wall drawing chooses not to reinstall it in his new dwelling, then he can either sell the certificate and instructions to the purchaser of his house, thereby enabling the purchaser to now own a LeWitt as well as the house, or he can paint over the artwork and offer the certificate and instructions for sale elsewhere. Once again—this time for collectors of LeWitt wall drawings—illustrating that for transactional as well as conceptual purposes, the art is all about the certificate.

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Applying the Doctrine of Work-for-Hire and Joint Works to Web Site Development

By Han Sheng Beh

Terminology such as "Web page," "domain name" and "the Internet" used to be part of a language reserved for only those who were computer savvy. Eight years into the Twenty-First Century, and the technology these words describe has permeated our everyday lives. As the Internet expands, copyright protection for the content and designs that are placed on the "information superhighway" become increasingly necessary.

Under section 201(a) of the Copyright Act, an author of a piece of work is the initial copyright owner.[1] However, the statute also authorizes the shifting of the initial vesting of copyright ownership to an employer or commissioner of the work upon creation.[2] This exception to section 201(a) is known as the work-for-hire doctrine.[3]

The work-for-hire doctrine is a flexible standard that has been thoroughly litigated in a myriad of fields.[4] Nevertheless, because the Internet is arguably an infant in comparison to the other forms of information media, parameters of the doctrine in this area are barely defined.

This article will explore the copyright issues faced by the Web development industry, particularly with regard to the history and current flux of the work-for-hire and joint works doctrines. It will show how the development of Web sites can fit under the work-for-hire doctrine due to the latter's flexible nature, and why Web site development should also be able to satisfy the joint work doctrine. Furthermore, this article posits that a distinction between Web sites and Web pages is needed, as simplifying these two separate entities into one could give rise to unreasonable results in copyright ownership.

A Brief Explanation on the Technology of Web Sites

Generally, a Web site is comprised of three main components, a Web address, Web pages and a computer, more specifically, a service provider or host.[5] A Web address, also known as a domain name, allows others who are "online" to locate a Web site by typing the address into a browser. Web addresses can come in the form of the direct address of a computer or a registered domain name, an alias that points to a computer's address. A domain name has significant advantages, as it provides a memorable, user friendly way of locating a Web site.[6]

A Web page is computer code used to display content on a Web site that requires interpretation by a browser. When a browser is directed to an address, the initial Web page, or home page, is displayed on the user's browser. From the home page, a user can click on "links" or manipulate the Web address to visit other Web pages related to the Web site. Sometimes links can refer a user to another Web site, which has its own group of Web pages.[7]

Finally, a service provider, also known as a host, is where the Web pages are stored. A host stores the Web page code and delivers the code to users who request it. By pointing their browsers to an address, users retrieve the code from the host to view it on their own computers. A Web site can be hosted from any computer, including a personal computer. However, most Web sites employ service providers to supply better speed and stability.[8]

The word "Web site" used in the everyday context broadly describes the interaction of all three components. When a Web site is "down" or "offline," that can refer to a multitude of technical problems that can be associated with a Web site. For example, the home page could have been changed to reflect that maintenance is taking place so that the users visiting the site cannot access the information that they seek; the service provider could be experiencing some technical difficulty either with its hardware (where the Web page code is stored) or network (the transmission of code to users asking for it); or the domain name has expired and no longer points to the Web pages that a user wants to access.[9]

The Statutory Basis: The Federal Copyright Act

Important to the discussion at hand is the Copyright Act of 1976, the federal statutes that govern, among other things, copyright ownership and the work-for-hire doctrine.[10] Section 201(a) states that the author of a work is the initial copyright holder while Section 201(b) of the Copyright Act outlines the work-for-hire exception.[11] Section 201(b) states:

> In the case of a work made for hire, the employer or other person for whom the work was prepared is considered the author for purposes of this title, and, unless the parties have expressed otherwise in a written instrument signed by them, owns all the rights comprised in the copyright.[12]

Read textually, this section shifts the authorship to either the employer or the person who commissioned the work. This shift gives copyright ownership to the employer or commissioner instead of the creator of the work. Section 101 complements Section 201 by providing the definition of a work made for hire. Section 101 states in pertinent part that a work for hire is:

1. a work prepared by an employee within the scope of his or her employment; or
2. a work specially ordered or commissioned for use as a contribution to a collective work, as a 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, if the parties expressly agree in a written instrument signed by them that the work shall be considered a work made for hire.[13]

The plain text of the definition shows that there are two ways to fall under the work-for-hire doctrine. One is through the employer-employee relationship in which the employee creates or performs some work within the scope of employment. The other is where there is no employment relationship but the work was 1) specially commissioned for 2) one of the nine statutorily enumerated works and 3) expressly agreed to be a work for hire in a signed written instrument. Read together, the two sections should give a good explanation of the work-for-hire doctrine. However, despite its seeming clarity, the doctrine has been thoroughly litigated with issues such as the employer-employee relationship, and the scope of employment becoming major points of contention in work-for-hire cases.

The Work-for-Hire Standard

Copyright ownership under work-for-hire has been applied to numerous situations. Each case would apply the relevant statutes and the cases preceding it to mold the work-for-hire doctrine within a particular technology or circumstance. Work for hire has been applied to arts, academia and even computer programming.[14] This section will discuss the doctrine's rich background and gradual evolution to the current issue of copyright within Web site development.

Sculpting the Face of Work-for-Hire: *CCNV v. Reid*

The seminal case dealing with work made for hire is *Community for Creative Non-Violence v. Reid. Reid* resolved the copyright ownership of a sculpture between an artist and the organization that hired him.[15] The Community for Creative Non-Violence (CCNV) contacted James Reid to create a sculpture depicting the "plight of the homeless" for a pageant.[16] Mr. Reid agreed to do so and the parties established that the sculpture would cost no more than $15,000, excluding Mr. Reid's workmanship, which he donated.[17] The copyright ownership dispute arose after the creation of the sculpture when both parties wanted control over the sculpture's touring schedule.[18]

Examining section 101(2) of the Copyright Act, the U.S. Supreme Court held that a sculpture did not fall under one of the nine enumerated works,[19] and there was no express written agreement that the work was to be made for hire.[20] As a result, the Court easily dismissed the applicability of section 101(2). Instead it focused its reasoning on whether there was an employer-employee relationship that would trigger work-for-hire under section 101(1).[21] Interpreting Congress' intent, the Court outlined a 12-factor test, grounded in the common law of agency, to determine if Mr. Reid was an employee of CCNV.[22] The Court found that sculpting was a skilled profession, that Mr. Reid used his own tools, controlled his own work time, received payment in the manner of an independent contractor, was retained for less than two months, and that CCNV did not pay Social Security taxes or offer employee benefits to Mr. Reid.[23] These factors weighed heavily in favor of Mr. Reid's status as an independent contractor and not an employee.[24]

To reach its decision, the Supreme Court dismissed three other tests used by the circuit courts to determine if an employer-employee relationship exists.[25] First, the Court found that CCNV monitored parts of the creation of the sculpture. For example, CCNV took Mr. Reid around Washington to observe homeless people, suggested he visit a homeless shelter to view suitable models, and insisted that each person depicted in the sculpture use a shopping cart to hold his belongings instead of shopping bags.[26] However, it rejected the argument that CCNV's monitoring actions determined Mr. Reid's status as an employee.[27] Consequently, the Court held that Mr. Reid was an independent contractor.[28] The Supreme Court did not determine whether the sculpture was a joint work, and this issue was reserved on remand.[29]

Evident within the *Reid* opinion was the Court's motivation to maintain predictability of copyright ownership by establishing what it believed to be a test that could be applied uniformly.[30] However, due to the extensive list of factors outlined within *Reid*, criticism has arisen regarding the probability of unequal application of such a subjective, complex test.[31] Nevertheless, *Reid* established strong precedent that would be applied to subsequent cases involving different works and circumstances.

Scope of Employment Clarified in Academia Cases

In the arena of schools and universities, the focal point of the work-for-hire doctrine is different. Whereas the *Reid* decision concentrated on whether the creator of a work was an employee or an independent contractor, the debate in the school setting focuses on whether employees are working within their scope of employment.[32] As a teaching position is usually a salaried position and is heavily controlled by the educational institution, teachers are usually unable to deny that they are employees of a school or university. Nevertheless, *Reid* clearly affected these cases, as it established that the common law of agency was to be used to determine whether an employee was working within the scope of employment.

Disputes between professors and educational institutions decided prior to *Reid* articulated what came to be known as the "teacher exception" to the work-for-hire doctrine.[33] For example, in *Weinstein v. Univ. of Illinois*, the court held that a professor's scholarly article was not a work for hire because publishing articles was not a required duty.[34] Similarly, in *Hays v. Sony Corp. of America*,[35] the Seventh Circuit stated that due to the teacher exception, high school teachers who created a word processor manual for class would probably hold the copyright due in that manual.[36]

However, the viability of the teacher exception came into question after *Reid* because the opinion made no mention of it.[37] In addition, cases in the academic setting, such as *Shaul v. Cherry Valley-Springfield Cent. School District*,[38] applied the *Reid* standard while limiting the teacher exception.

In *Cherry*, the court held that a high school teacher's tests, quizzes and homework assignments fell under the work-for-hire doctrine, and therefore, the school was the author and owner of the teaching materials.[39] In determining whether an employee's conduct falls within the scope of employment, the court used a three-part test: "(1) It is of the kind of work [an employee] is employed to perform; (2) It occurs substantially within authorized work hours; (3) It is actuated, at least in part, by a purpose to serve the employer."[40] As preparing testing materials was a regular duty of a school teacher, preparation outside of class was commonplace in the profession, and the tests were created to fulfill the goals of the school, the court held that Mr. Shaul was an employee working within his scope of employment when he created the tests and quizzes.[41] Furthermore, the court distinguished the teacher exception in *Weinstein* because the materials were not "explicitly prepared for publication."[42] As a result, the school was the author of the teaching materials under section 201 of the Copyright Act.[43] Similarly, cases like *Genzmer v. Public Health Trust of Miami-Dade County*[44] and *Vanderhurst v. Colorado Mountain College District*[45] apply the three-prong common law test without mentioning the teacher exception.

Although the teacher exception issue still arises, commentators generally agree that the exception was not preserved in the 1976 Copyright Act.[46] The Supreme Court of Kansas even questioned whether the narrow teacher exception is already accounted for in the common law scope of employment requirement.[47] It is relatively clear from the cases decided after *Reid* that the teacher exception holds little, if any, weight.

Ones and Zeros: Work-for-Hire Applied to Computer Programming

The work-for-hire test laid out in *Reid* was based on the common law of agency. This method of evaluating work for hire has made the test easily applicable to new forms of media and circumstances. However, as the analysis of each case requires a fact specific inquiry, courts have decided a healthy number of cases involving computer programming.

Applying the Employer-Employee Test to Programmers

As in prior work-for-hire cases, courts dealing with computer programmers had to determine if the creator of the work was an employee or independent contractor. In *Aymes v. Bonelli*, Aymes, a computer programmer, was held to be an independent contractor and therefore owned the copyright to a computer program that he wrote. Similar to *Reid*, Aymes was asked by Island Swimming Sales, Inc. (Island) to write a program that maintained records for the corporation, but there was no written agreement between the parties.[48] Aymes worked on the project at Island's office and the project was monitored and tuned to fit the company's needs.[49] However, Mr. Aymes "enjoyed considerable autonomy" when he worked, did not receive health benefits, and was not treated by Island as an employee in its tax and payroll system.[50] Applying the *Reid* factors to these elements, the court latched onto the fact that Island treated Mr. Aymes as an independent contractor through its failure to provide employee benefits and pay payroll taxes for Aymes.[51] The court then held that Island should not be allowed to re-categorize Mr. Aymes' status to deny him rights to his program.[52] As a result, Mr. Aymes was found to be an independent contractor.[53] However, as the suit was a copyright infringement case, the court remanded to determine if the work could be held as a joint work.[54]

Similarly, in *Graham v. James*[55] the court reasoned that the defendant Larry James was an independent contractor because "James is a skilled computer programmer, he was paid no benefits, no payroll taxes were withheld, and his engagement by Graham was project-by-project."[56] Conversely, programmers were found to be employees if the *Reid* factors, as applied to the facts of the case, produced a different result.[57]

Scope of Employment of a Programmer

In addition to the employee/independent contractor analysis, courts have also decided whether programmers were acting within their scope of employment. Although courts have come down on different sides of the issue, the standard has produced sound results.[58] An example of how the standard has been applied to computer programmers can be seen in *Avtec Sys. v. Peiffer*.[59] In *Avtec*, a programmer who developed a program at home, within his field of employment, was nevertheless found to be working outside the scope of employment.[60] The court in *Peiffer* reasoned that Mr. Peiffer's "orbital simulation for satellites" program was work that Mr. Peiffer was hired to perform due to the fact that Avtec was in the business of selling space-related computer services.[61] This satisfied the first prong of the common law scope of employment test. However, the court affirmed the lower court's finding that because Mr. Peiffer worked on the program at home and the program was not meant to serve Avtec's interest, that the second and third prongs, respectively, were not satisfied.[62] As a result, Mr. Peiffer was not acting within the scope of employment when he created the orbital simulation program.[63]

Section 101(2) and the Writing Requirement Debate

Section 101(2) of the Copyright Act of 1976 provides a second method for qualification under the work-for-hire doctrine. To fall under this provision, the work must be: 1) specially commissioned for 2) one of the nine statutorily enumerated works and 3) expressly agreed to be a work-for-hire in a signed written instrument.[64] Although many litigated cases involve the absence of a writing between the parties, the cases that try to fit under section 101(2) have raised an issue as to the meaning of the writing requirement.

Textually, section 101(2)'s meaning is straightforward: to determine the outcome of work-for-hire under this definition, one would look at the facts provided and attempt to check off each of the three elements required. However, Judge Posner, in *Schiller & Schmidt, Inc., v. Nordisco Corp.*,[65] read a temporal requirement into the third element. *Schmidt* entailed a dispute over photographs that were taken by Bertel, a photographer, for Rybak, when Rybak was employed by Schiller. Rybak then left the company and created a competing business, using the photographs in his catalogues.[66] Schiller sued for copyright infringement. According to Judge Posner, Bertel could not in any way fit under the classification of an employee of Schiller, and therefore Schiller had to rely on section 101(2) to establish copyright ownership.[67] Although there was no writing that would support work-for-hire between Schiller and Bertel when the photographs were taken, Schiller obtained Bertel's signature on an agreement after litigation had commenced. The agreement stated that Schiller owned the copyright to the photographs and any remaining copyrights would also be assigned to Schiller.[68] Schiller, however, did not sign the agreement.[69] Judge Posner reasoned that this agreement could not satisfy the writing requirement because "signed by them" under the statute meant that both parties had to sign the agreement.[70] In addition, "the statement also came too late" because work-for-hire shifts the vesting of copyright ownership to the commissioner and attaches when the work is created.[71] Therefore, a written agreement is required to precede the creation of the work for the purposes of work for hire under section 101(2).[72] As the writing was created retroactively, Schiller could not be the copyright owner.[73]

The requirement articulated in *Schmidt* was rejected by the Second Circuit three years later in *Playboy Enterprises, Inc. v. Dumas*.[74] In *Dumas*, the court discarded the Seventh Circuit's bright-line test in favor of a different temporal requirement.[75] The Second Circuit held that as long as "the parties agree before the creation of the work that it will be a work made for hire[,]" the writing itself need not "be executed before the creation of the work."[76] At issue in *Dumas* were legends on the back of checks that Playboy issued to Mr. Nagel, a graphic artist. The legends contained the work-for-hire provision and were signed by both parties.[77] However, neither party in the suit "proffered any direct evidence of the intent of the parties before the creation of the works."[78] Nevertheless, the court found that although Nagel's first check could not be evidence of an agreement prior to the creation of the work, his subsequent endorsement of checks could infer a "pre-creation consent to such a relationship."[79] Accordingly, the court found that the writing requirement under section 101(2) could be satisfied and the illustrations could be considered work-for-hire.[80]

Schmidt and *Dumas* show a split between the two circuits when interpreting the temporal requirement of section 101(2). The only court to weigh in on this split is the U.S. District Court in the Southern District of Texas. In *Compact Computer Corp. v. Ergonome Inc.*,[81] the court chose to follow the Second Circuit's reasoning that a pre-creation agreement is required for a work-for-hire relationship to occur.[82] In addition, the agreement does not have to be memorialized prior to the creation of the work.[83]

The question remains open as to whether there is a bright-line requirement. Yet what is clear is that there is a temporal requirement under section 101(2). The Seventh Circuit's bright-line test encompasses the Second Circuit's pre-creation intent requirement because a written agreement cannot exist without the intent to enter into a work-for-hire relationship. Therefore, if there is a written document prior to the creation of the work, there has to be an agreement pre-creation.

In summary, the cases dealing with the writing requirement highlight two key points. First, the intent to partake in a work-for-hire relationship must precede the creation of the work. Second, the writing memorializing the agreement must be signed by both parties.[84]

The Web Site Copyright Problem

Copyright, Work-for-Hire and Web Site Development

One of the latest disputes over copyright ownership involved a criminal trial for fraud. In *State v. Kirby*,[85] the Supreme Court of New Mexico held that a Web page designer who created and owned the copyright to the Web pages owned the Web site where the Web pages were located.[86] Richard Kirby, the defendant, approached Loren Collett, a Web site developer operating under a sole proprietorship, to design and develop a Web site. The defendant agreed that he would pay Collett $1,890 for the latter's services.[87] However, after the Web developer created and incorporated the Web pages into the Web site, the defendant did not pay Collett and changed the password on the Web site to lock the developer out.[88] A written contract between the parties made no explicit agreement pertaining to the Web site but it did discuss copyright ownership of the Web pages.[89] The Court found that pursuant to the contract, Collett reserved the copyright of the Web pages and that "[u]pon payment, Defendant would receive a kind of license to use the Web site."[90]

The prosecution was required to prove that "*the Web site* [that the defendant obtained] *belonged to someone other than defendant*" for a conviction as criminal fraud.[91] Consequently, the defendant argued that no reasonable jury could have found that the Web site belonged to someone else, because he owned the Web site.[92] The defendant had obtained the domain name, hosting service and passwords, which are necessary components to any Web site.[93]

The Supreme Court of New Mexico rejected the defendant's contentions, finding that a Web site and its Web pages are interchangeable terms for the purposes of copyright and ownership. The court pointed to cases where copyright disputes similar to *Kirby* arose and no distinctions were made between Web pages and Web sites.[94] It also reasoned that part of the interchangeable nature of Web sites and Web pages was due to the fact that a Web site is virtually non-existent without a Web page that "gives it life."[95] Following this reasoning, the court only had to establish who owned the copyright to the Web pages to determine ownership of the Web site. As the contractual agreement between Kirby and Collett established that copyright of the Web pages remained with the Web developer, the court held that a reasonable jury could have found that Kirby committed fraud by taking a Web site he did not own.[96]

Although *Kirby* is a state case, the Supreme Court of New Mexico referred to federal cases and federal statutes to make its decision. The court alluded to the work-for-hire doctrine in its opinion and applied the rule of law established by *Reid*, section 101 and section 201 of the Copyright Act, to the facts of *Kirby*.[97] It found that Collett would have been an independent contractor and that the written agreement between the parties was an assignment of right instead of a work-for-hire.[98] Therefore, Collett's Web pages, and the Web site where the Web pages were located, were not a work–for-hire.[99] In addition, the court stated that because the defendant did not argue that the Web site was a joint work, it did not have to address that possibility.[100]

It is unclear what the court intended with its analysis of federal law. Section 301 of the Copyright Act pre-empts the "general scope of copyright" from being litigated in state courts, and therefore a state court may not decide work-for-hire issues.[101] One possibility is that the court made a holding when it did not have the power to do so. Another more likely possibility is that it applied the federal statute as a method of interpreting the contract between the defendant and Collett.[102]

Importance of the Technical Distinction Between a Web Site and a Web Page

Compared to other forms of media, the Internet, Web sites and Web pages are still considered a new development. This is evidenced in *Kirby* and other cases where courts have outlined a basic explanation of the Internet and the Web site / Web page relationship.[103] The outcome of *Kirby* seems fair, as the defendant's conduct of refusing to pay someone and then blocking him from taking back the work was egregious. However, the court goes too far in holding that a copyright holder of Web pages placed on a Web site is the owner of the Web site itself.

In its technical explanation, the Supreme Court of New Mexico delineates the difference between a Web page and Web site. Citing *Sublett v. Wallin*,[104] the court explains that a "Web site consists of a number of webpages" and therefore, a "webpage is an integral part of a Web site."[105] By adopting this definition, the court places Web pages as a subset of a Web site. Although it is possible that one who owns a subset owns the whole, automatically attributing ownership of an entire set to the owner of a subset is illogical.

After distinguishing a Web page from a Web site, the court turned around and cited precedent in which other courts discussed Web sites and Web pages as one entity.[106] It then adopted this overly simplified view and affirmed the defendant's conviction on the ground that the Web developer owned the Web site.[107] Instead of coming to this conclusion, the court could have used a different line of reasoning to find that the defendant committed fraud. After all, he was effectively preventing the Web developer from reclaiming or accessing the Web pages that he owned.

The number of people who use the Internet and computer technology is growing at a rapid pace.[108] As this shift occurs, it will be more and more difficult to find people without a minimal, low-level understanding of the Internet and the different roles played by a Web site or a Web page. By grouping Web site and Web page as one, the court ignores the fact that on a technical level, the two are distinct, and that there should be a legal separation with regard to the rights involved.

Interdependency of Web Pages, Web Address and Service Providers

The *Kirby* court justifies its holding that a Web page owner is also the owner of the Web site by explaining that a Web page is the substance that gives a Web site "life."[109] Although it is true that a Web site without Web pages is of little to no value, if any of the other necessary components of a Web site were missing, it would also render a Web site valueless.[110] Minimizing the value of a domain name, the court states that "it is nothing more than an address."[111] However, without this address, a Web site will be unable to provide its content with ease on the World Wide Web. Users who wish to access a Web site without a domain name would have to obtain the direct address from the service provider, which is usually a series of forgettable numbers.[112] Without an address, one of the main purposes of a Web site—convenience—is greatly burdened. Furthermore, the value in a domain name is significant, as evidenced by the protection given by the federal government to domain names through the "Anticybersquatting" statute.[113]

Similarly, without a commercial service provider, a Web site's Web pages would have to be stored and run from a personal machine. This would tax the bandwidth of most Web sites causing a dramatic loss of speed and possibly crashes under a high load.[114] An unreliable and slow Web site would be, as the *Kirby* court described, of "little use to any business enterprise."[115] It is not being argued that the owner of the domain name or service provider owns a Web site. These components, like Web pages, are subsets of a Web site that rely on each other to create a functional Web site.[116] As a result, basing ownership of a Web site on ownership of any one of these components is illogical.

Web Sites with User-Controlled Web Pages

By simplifying Web sites and Web pages as one, the *Kirby* decision also established dangerous precedent that could give rise to illogical results. The success of Web sites as sources of cutting-edge information stems partly from the level of interactivity and freedom given to users on the Internet. Many Web sites are set up not to directly disperse information, but instead to spur discussion.[117] This method allows users to read input from other users regarding a topic. To follow this trend of horizontal information sharing, there are numerous Web sites on the Internet that relinquish control of their individual Web pages to users or visitors of the Web site. For example, Web sites like wikipedia.com and other "wikis" allow users to edit parts of the Web pages to contribute information.[118] Similarly, myspace.com allows users to upload entire blocks of Cascading Style Sheet (CSS)[119] code to create their personal Web pages within the site.[120] Finally, Web sites like geocities.com provide free hosting where users are given passwords and server space to upload their own Web pages in HTML form.[121]

Although most of these Web sites are protected by Terms of Use agreements, if a site happens to lack a user agreement or a court finds that an agreement is unenforceable, it is plausible after *Kirby* that a user or group of users who own the copyright to the individual Web pages will be able to take ownership of a Web site. This would be an unacceptable result, as it would threaten companies that allow for more widespread personalized user interaction that is unique to the way the Internet compiles and distributes information.

Can Web Sites be Works-for-Hire?

Kirby did not focus much on the application of work for hire within its analysis. However, the case highlights the importance of understanding the work-for-hire doctrine and applying the doctrine in appropriate situations. The *Kirby* case found that Collett, the Web developer, was an independent contractor under the *Reid* test.[122] Although the court did not specifically analyze the factors involved, the fact that Collett ran a sole proprietorship, did not retain any benefits from Kirby, and was to be compensated in a lump sum at the completion of work, made it virtually indisputable that Collett was an independent contractor.[123] Categorized as an independent contractor, Collett owned the copyright to the Web pages under Section 201(a) of the Copyright Act. On the other hand, if the facts were different and Collett were found to be an employee working within the scope of employment, the Web sites that he created would fall under work-for-hire.[124]

Not as certain is whether a Web site can fall under section 101(2). The extent of the *Kirby* court's analysis under 101(2) was outlining the three requirements and stating that "these elements are lacking."[125] Although the court was probably motivated by the fact that the only written agreement between the parties was a contract of assignment, one can only guess at which element or elements were lacking.[126]

In the context of a hypothetical Web development situation, element one requiring that the work be specially contracted for usually would not be an issue. This is because the relationship between parties in a Web development context usually requires a client to approach a Web developer who is then informed as to the scope of the Web site and any features that the client would like to have implemented. Even if the Web developer is given artistic freedom, the developer would still have to be given basic facts, such as the type of Web site (business or personal), the information to be placed on the Web site, and a Web address (depending on whether the client has purchased a domain name) before the developer can begin work on a Web site. Similarly, element three would not bar a Web site from being a work-for-hire as it is up to the parties to produce a written agreement.[127] In addition, the temporal requirement that the parties agree before the creation of the work should be easily satisfied following the same reasoning as element one.[128]

On the other hand, element two requires that the work be one of the nine specifically enumerated works listed in the statute.[129] Courts have not weighed in on whether a Web site can fall under one of the nine enumerated works in section 101(2). As the creation of Web sites can differ drastically from case to case, each Web site would have to be analyzed individually to determine if it could fall within the enumerated works. A Web site could fit within the realm of a compilation if it was created as a listing of other sites addressing a topic, or if it was a hub for a network for spoke sites.[130] Conversely, if a Web developer was employed to create a Web site that merely focuses on distributing information, it will probably not fit within one of the enumerated works.

Precautions to Take Under the Work-for-Hire Doctrine

The work-for-hire doctrine's flexible test creates difficulty in predicting whether it can be applied to the field of Web development. However, having the understanding that current copyright laws are not yet fully adapted to this new technology highlights a few precautions that each party can take before entering into a business deal involving the creation of Web sites.

Why Collett in the *Kirby* case ended up developing the Web pages directly on the defendant's system is somewhat of a mystery.[131] Within the industry it is commonplace for a developer to first program the pages locally and host the Web page from his machine so that clients may view, test and request changes be made.[132] After the pages are approved, the Web developer will then publish the Web site onto the client's service provider, to which a domain name has been attached.[133] Developing a Web site or Web page this way allows developers to have complete control over their own works through completion. Although it does not protect a developer from a client who intends from the outset to swindle the programmer, it alleviates the situation where payment is withheld due to a client's belief that the work is unsatisfactory. This method does not give control to the client until the last moment of the business transaction.

It is easy for a Web site manager to believe that he owns a Web site when he has the power to control what is accessible through the domain name or the service provider. However, as seen in *Kirby* and the cases that it cites, courts in some instances have simplified the technological difference between a Web site and a Web page.[134] As a result, a prudent Web site manager would not only discuss copyright ownership of the Web pages that a developer creates, but also specifically address the ownership of the Web site as a whole in any contractual agreement. In addition, a Web site manager must be careful about locking a developer out by changing passwords. What seems to be a mere disrespectful action could result in dire circumstances, as witnessed in *Kirby*, where the defendant was convicted of a criminal fraud.[135]

For an attorney drafting contracts to fit under section 101(2), there are some issues not apparent in a textual reading of the statute. First, the written agreement must describe with specificity the exact work that is being commissioned.[136] In the event that one person is being used for a series of works, separate contracts or clauses specifying each piece of work should be drafted. In the Web development context, an attorney should make sure that copyrights with regard to the Web pages and the Web site are specifically discussed to avoid future confusion or possible litigation. Second, the agreement to engage in a work for hire relationship must occur before the creation of the work.[137] Although there is a split in the Circuits as to whether an agreement has to be memorialized before the work begins,[138] it would be advisable to follow the stricter rule from the Seventh Circuit and execute the written agreement prior to the creation of the work. This will minimize the risk of litigation, regardless of the jurisdiction. Until the law pertaining to this issue is more settled, there is no predictability. Employing this method would also protect a client from unnecessary disputes with regard to the temporal requirement, as the documentation would serve as solid evidence of a pre-creation agreement if a dispute goes to trial.

Nonetheless, the above method only works if an attorney is given the opportunity to advise a client prior to the creation of the work. Many situations involve works that have already been started but are not yet completed. For example, a company that seeks to develop products based on proposals will usually encounter a situation where a prototype or some work has already been completed. To ensure that a client seeking to use the work-for-hire doctrine in this type of situation is protected, it would be prudent to draft a contract clause that deals with copyright in two steps. First, the creator assigns any and all current copyright to the commissioner of the work; and second, a separate clause, preferably using the phrase "work for hire," should be included to cover all future work done by the creator. This type of drafting would comply with the temporal requirement of work for hire while ensuring that the commissioner has the copyright.

The Next Big Case: Can the Creation of a Web Site Be a Joint Work?

As cases dealing with copyright and work for hire in the field of computer programming and Web site development are scarce, the question of whether a Web site can constitute a joint work has not been considered. In addition, the joint-work standard depends on the circumstances surrounding the work. Some cases declined to evaluate the joint work standard because the parties never argued the issue, while others remanded the issue back to lower courts.[139]

The Joint-Work Standard

Similar to work for hire, the joint-work standard is established in sections 201(a) and 101 of the Copyright Act of 1976. Section 201(a) states that "authors of a joint work are co-owners of copyright in the work," while section 101 defines joint work to be "a work prepared by two or more authors with the intention that their contributions be merged into inseparable or interdependent parts of a unitary whole."[140] The joint-work standard is best illustrated in *Weissmann v. Freeman*.[141] *Weissmann* involved an assistant to a researcher who co-authored a few articles. The assistant produced a derivative work of one of the articles which the researcher used as his own.[142] The court first held that the district court was mistaken in finding that when a derivative work is created, the authorship of the derivative work is automatically the same as the authors of the original.[143] Instead, each author must have intended to contribute an inseparable part to the whole work, and in fact contributed to the work.[144] As the court found that the researcher never had the intention to be a co-author of his assistant's derivative work, it reversed the lower court and held that the researcher infringed upon his assistant's copyright interests.[145] The court noted that the intent requirement should not be mistaken to mean that the parties must know who the other contributors will be at the time a contribution is created.[146] As long as a contributor knows that his work is going to produce a final joint work, the intent requirement is satisfied.[147]

The joint-work standard was further explained in *Erickson v. Trinity Theatre, Inc.*[148] The Seventh Circuit in *Erickson* held that in addition to the intent to create an inseparable work, each alleged author's contribution must be independently copyrightable.[149] The court scrutinized the Nimmer and Goldstein tests for joint works.[150] Under the Nimmer test, achieving joint author status requires only that the author make "more than a *de minimis* contribution."[151] In contrast, the Goldstein test requires that each contribution to the whole must be independently copyrightable.[152]

In adopting the latter test, the court reasoned that Goldstein's "copyrightability test str[uck] an appropriate balance in the domains of both copyright and contract law" because it allows authors to receive suggestions without risking authorship rights.[153] In addition, contributors who deemed their suggestions to be useful, but not copyrightable, could protect themselves by contract.[154] Applying the facts under the Goldstein test, even though the defendant could establish that there was intent to be joint authors for one of the plays written by the plaintiff, the suggestions were not copyrightable.[155] As a result, the preliminary injunction was affirmed, as the defendant could not be a joint author, raising the likelihood that the plaintiff would succeed on her infringement claim.[156]

However, a decision by the same circuit 10 years later in *Gaiman v. McFarlane*[157] questioned if the Goldstein test should be applied in all cases. In *McFarlane*, the court held that in cases where the "nature of the particular creative process" makes it so each person's contribution, standing alone, is not copyrightable, but the end product is copyrightable, each contributor can be considered an author of a joint work.[158] *McFarlane* dealt with the comic book industry, where the work is naturally divided into writing, penciling, inking and coloring. Judge Posner envisioned the situation where each individual contribution to the comic book would not rise to the level of copyrightability but the final work would be copyrightable.[159] Reasoning that it would be paradoxical to find that no one owned the copyright to a copyrightable piece of work, the court held that in these situations, each contributor would be a joint author if each intended at the outset to create the joint work.[160] Judge Posner then considered the Nimmer test that was rejected in *Erickson* and applied the test to *McFarlane*.[161] As Mr. Gaiman was specifically hired as a writer to help develop characters in the *Spawn* comic series, Judge Posner found that the parties set out to create a joint work. In addition, the court found that Mr. Gaiman's contributions to certain comic book characters were not mere suggestions or ideas, even though they would not have been copyrightable standing alone.[162]

Application of the Nimmer test in the *McFarlane* case poses the question of whether *Erickson* is still good law in the Seventh Circuit. The *McFarlane* decision refused to apply the Goldstein test but also did not specifically overrule *Erickson*. Furthermore, the opinion makes note that the Goldstein test generally produces correct results but does not account for the case where every part contribution would not be copyrightable while the finished product would be.[163] It is possible that the cases are consistent with each other. If the *McFarlane* decision is read narrowly, the Goldstein test would still be the standard to determine authors in a joint-work situation unless the nature of the work makes it so that each contribution would not rise to the level of copyrightability.[164]

Can Web Sites Fall Under the Joint-Work Standard?

For a Web site to be considered a joint work between a commissioner and a Web developer, the parties and Web site will have to meet the elements articulated by sections 101 and 102 of the Copyright Act and case law. Specifically, the creators of a Web site must have the intent of creating a piece of inseparable work together. In addition, depending on which test a jurisdiction applies, each contribution must either be individually copyrightable or exceed the threshold of mere suggestion. *Kirby* never decided whether the Web site was a joint work.[165] Therefore, this section will use the relevant facts in *Kirby* to evaluate if a typical Web site development relationship will produce a Web site with joint authors.[166]

Intent to create a joint work

For a joint work to exist the authors involved must have the intent to create it together.[167] In *Kirby*, the defendant purchased the domain name and obtained a service provider. He then approached a Web page designer to create the pages that would be associated with the domain name and host. In this situation, it is reasonable to infer that the parties had the intent to jointly create a Web site. The defendant would have known that without the content providing Web pages, his Web site would not exist. Similarly, the designer with the advantage of technical knowledge would know that his Web pages would not be found on the Internet without a domain name or host. Therefore, the defendant and the Web developer in *Kirby* would have had the intent to create a Web site together.

Conversely, another typical Web site development relationship is where the commissioner asks the Web developer not only to design the Web pages, but also to obtain all the other necessary components for a Web site. Intent to create a joint work is less evident in this instance, as the Web developer would be in control of all the components of a Web site. The relationship established in this scenario is more likely to be interpreted as intent to purchase or license a Web site rather than the intent to create a joint work.

Work must be inseparable

The second element of joint work is that each contribution must be inseparable from the whole.[168] Web pages and a domain name are easily interchangeable on a technological level because Web pages can be placed under any domain name and vice versa.[169] Yet, when viewed within the context of a Web site, it can be argued that they cannot be separated. Web pages are usually tailored to fit a specific domain name, because having a Web page with an arbitrary or misleading domain name is not functional.[170] The consistency of a domain name and its Web pages serve the primary functions of a Web site by making the site memorable and searchable. Thus, a Web site's domain name and the Web pages created for that particular Web site should be considered inseparable contributions to the whole.

Jumping through the hoops of Goldstein and Nimmer

The final requirement for a joint work depends on which test a court chooses to follow. Under the jurisdictions following the Goldstein test, each individual contribution would have to be copyrightable. Courts have found that Web pages are works that are generally afforded copyright protection.[171] On the other hand, domain names are considered an uncopyrightable "short phrase" under 37 C.F.R § 202.1(a).[172] Even if a commissioner were to argue that he gave the idea and direction for the Web site, a court applying the Goldstein test probably would find that the suggestions are not protected by copyright.[173] Therefore, under the Goldstein test, the defendant in *Kirby* would not have been considered a joint author of the Web site, as he only contributed suggestions and a domain name.

Web site development is analogous to the comic book industry. The same way a character-writer and an inker are important to a comic book, a domain name and host are valuable. Yet these components are not independently copyrightable. In spite of this, under the Nimmer test, a court would probably find each contribution to be above the threshold to allow a commissioner to be a joint author. Applying the Nimmer test, the court in *McFarlane* outlined a hypothetical involving two professors who intend to create a joint work:

> Here is a typical case from academe. One professor has brilliant ideas but can't write; another is an excellent writer, but his ideas are commonplace. So they collaborate on an academic article, one contributing the ideas, which are not copyrightable, and the other the prose envelope, and . . . they sign as coauthors. Their intent to be joint owners of the copyright in the article would be plain, and that should be enough to constitute them joint authors . . . .[174]

Web site development can involve a situation very similar to that expressed by Posner where one person has the vision and artistic planning of a Web site, while the other merely has the technical prowess to code and carry out that vision. The parties in this instance would work hand in hand until the Web site is completed. This situation would be one of those paradoxical instances described by Judge Posner where the Nimmer test should be applied. If the Nimmer test is applied to this hypothetical, the planning and vision should be more than a *de minima* contribution, making it probable that the Web site would be considered a joint work.[175]

Web sites should be considered joint works

As discussed above, Web sites should easily satisfy the first and second element of joint work. The third element depends on whether a court decides to apply the Nimmer or the Goldstein standard.[176] Judge Posner delivers a strong argument for applying the Nimmer test in *McFarlane* because of the paradoxical nature of certain industries. Although it is unclear, it seems that Posner is advocating use of the Nimmer test only in specific situations when the Goldstein test is unsuitable.[177] If that is the case, the Nimmer test for the third element should be used for the Web development industry. Web development suffers from the same problems that the comic book industry encountered in *McFarlane*. If a commissioner pours energy into visualizing a Web site and does the "ground work" of obtaining a domain name and a service provider, he has contributed necessary components to a Web site. However, these necessary portions of a Web site are not copyrightable. Applying the Goldstein test strictly would leave the commissioner's valuable contribution unprotected. Unlike the Goldstein test, the Nimmer test would produce a more just result in the context of Web site development.

Conclusion

When dealing with new forms of media, technical definitions in the trade should correlate to the legal world. A Web page and a Web site are two technically distinct entities and should be treated as such. Although a Web site consists mainly of Web pages, other components, such as a domain name and server space, are also necessary. Each component plays an important part to the functionality of a Web site and sometimes has significant monetary value.[178] The *Kirby* court decided to group a Web site and its corresponding Web pages because it deemed Web pages to be the most important aspect of a Web site.[179] Such simplification produced a sound result in *Kirby*. However, there are a host of problems involved with this line of reasoning.

The industry does not use the term Web page and Web site interchangeably.[180] A Web page is considered a subset of a Web site, and the legal world should draw this distinction. It is illogical to assume that the owner of a subset also owns the entire parent set, especially when the other components in the parent set have significant value. Furthermore, the Internet thrives on the wealth of information compiled through many different sources. This has evolved into a world where individual users can make significant contributions to a Web site through forums, personalized Web pages and other interactive methods of information sharing. If owners of Web pages also own the Web site, it is plausible that Web sites that allow heavy user interaction with unenforceable or invalid terms of use agreements could eventually be taken over by their users. This is a result that is unreasonable and a hindrance to the unique way the Internet functions.

Apart from the technical distinctions of a Web page and a Web site, courts are also faced with the application of the work-for-hire doctrine in the area of web development. There are two ways to fall under the work-for-hire doctrine of section 201(b). The first is through the work-for-hire standard articulated in *Reid*.[181] The employer-employee test is a flexible 12-factor test that requires a fact-specific inquiry based on whether an employer-employee relationship exists. Although a multi- factored test is hard to apply, the standard is malleable to fit the various forms of media in today's world and any new types of media that may develop in the future. The *Reid* work-for-hire doctrine can easily be molded to fit the Web development industry and the outcomes depend on the facts. Web developers could work as in-house Information Technology personnel, thereby probably placing them under the employee category, or they could be independent contractors commissioned to produce Web sites, where the commissioner has no control over the developers.

The second method requires three elements: (1) the work must be specifically commissioned, (2) there must be a writing, and (3) the work has to fall under one of the nine enumerated works.[182] The first two requirements do not act as bars for the Web development work to be considered works for hire. However, falling into one of the nine enumerated works is more difficult. Determination of what type of work a Web site is relies mainly on the content provided by the Web pages. As Web pages can consist of content that reaches the bounds of imagination, it would be possible for a Web page to fall under "a contribution to a collective work . . . other audio visual work [or] . . . a compilation."[183]

Other than work for hire, the joint-work doctrine seems a better fit for the Web development industry. A Web site could be considered a joint work under the doctrine as it would be simple to satisfy the intent and inseparable requirements.[184] In addition, even though the Goldstein test would bar a Web site from being a joint work, the decision in *McFarlane* to apply the Nimmer test in select situations should also apply to the Web development industry.

The nature of Web development produces situations where a contributor provides necessary components to a Web site. However, those components by themselves do not rise to the level of copyrightability. Following the Nimmer test in a Web development situation will give protection to the contributor of a concept and domain name of a Web site.

Although application of the work-for-hire and joint-work doctrines require case-by-case analysis, understanding the nuances of the doctrines is invaluable to any attorney, businessperson or author who will encounter copyright issues. Working carefully with the Copyright Act, one should be able to minimize the risk of litigation or future disputes regarding ownership and the intent of the parties.

Endnotes

1. 17 U.S.C.A. § 201(a) (West 2005).
2. 17 U.S.C.A. § 201(a); 17 U.S.C.A § 201(b) (West 2005).
3. 17 U.S.C.A. § 201(b).
4. *See, e.g., Cmty. for Creative Non-Violence v. Reid*, 490 U.S. 730 (1989); *Aymes v. Bonelli*, 980 F.2d 857 (2d Cir. 1992); *Weinstein v. Univ. of Illinois*, 811 F.2d 1091 (7th Cir. 1987).
5. S. Ignacimuthu, s.j., Basic Bioinformatics 17 (2004).
6. Comm. on Internet Navigation and the Domain Name Sys.: Technical Alternatives and Policy Implications, Signposts in Cyberspace 1-2 (2005).
7. Ignacimuthu, *supra* note 5, at 17.
8. *Id.* at 17-18.
9. *See* What Is Offline, *available at* http://searchnetworking.techtarget.com/sDefinition/0,,sid7_gci542056,00.html (last visited Sept. 22, 2008).

10. Copyright Act of 1976, 17 U.S.C.A. §§ 101-1332 (West 2005).

11. 17 U.S.C.A. § 201(a); 17 U.S.C.A. § 201(b).

12. 17 U.S.C.A. § 201(b).

13. *Id.* §101.

14. *See, e.g., Reid*, 490 U.S. 730 (1989); *Aymes*, 980 F.2d 857 (2d Cir. 1992); *Weinstein*, 811 F.2d 1091 (7th Cir. 1987).

15. *Reid*, 490 U.S. at 732.

16. *Id.* at 733.

17. *Id.* at 734.

18. *Id.* at 735.

19. *See supra* Part III.

20. *Reid*, 490 U.S. at 738.

21. *Id.*

22. *Id.* at 751-52. The relevant factors are:

> [T]he 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 project 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; the provision of employee benefits; and the tax treatment of the hired party.

Id. at 740.

23. *Id.* at 752-53.

24. *Id.* at 752.

25. *Reid*, 490 U.S. at 742, 743 n.8 (rejecting the "right to control test," "actual control test" and that an employee only refers to a salaried or formal employee).

26. *Id.* at 734.

27. *See Id.* at 734, 741.

28. *Id.* at 753.

29. *Id.*

30. *See Reid*, 490 U.S. at 740.

31. Charles D. Ossola, *Recent Developments Relating to Copyright Ownership and Transfer*, 441 PLI / Pat *7, *12-13 (1996).

32. *Compare Reid*, 490 U.S. 730, *with Weinstein*, 811 F.2d 1091 (7th Cir. 1987).

33. Jeff Todd, *Student Rights in Online Course Materials: Rethinking the Faculty/University Dynamic*, 17 ALB. L.J. SCI. & TECH. 311, 322-23 (2007).

34. *Weinstein*, 811 F.2d at 1094.

35. 847 F.2d 412 (7th Cir. 1988), *abrogated by Cooter & Gell v. Hartmarx Corp.*, 496 U.S. 384 (1990) (abrogated for other reasons).

36. *Hays*, 847 F.2d at 416.

37. *See generally Reid*, 490 U.S. 730.

38. 363 F.3d 177 (2d Cir. 2004).

39. *Id.* at 185.

40. *Id.* at 186 (citing Restatement (Second) of Agency § 228 (1958)).

41. *Id.*

42. *Id.*

43. *Cherry*, 363 F.3d at 186.

44. 219 F. Supp. 2d 1275, 1283 (S.D. Fla. 2002) (holding that a post-graduate intern working as a physician who wrote a computer program to assist with research did so within the scope of employment).

45. 16 F. Supp. 2d 1297, 1307 (D. Colo. 1998) (reasoning that a professor's outline was connected to his employment and therefore within the scope of employment).

46. Todd, *supra* note 33, at 323.

47. *See Pittsburg State Univ. v. Kansas Bd. of Regents*, 122 P.3d 336, 346 (Kan. 2005) (citing Symposium on Kansas Law and Legislation, Wadley & Brown, *Working Between the Lines of Reid: Teachers, Copyrights, Work-For-Hire and A New Washburn University Policy*, 38 WASHBURN L.J. 385, 432 (1999)).

48. *Aymes*, 980 F.2d at 859; *See also Reid*, 490 U.S. at 738.

49. *Aymes*, 980 F.2d at 859.

50. *Id.*

51. *Id.* at 862-63.

52. *Id.* at 862.

53. *Id.* at 864.

54. *Aymes*, 980 F.2d at 865.

55. 144 F.3d 229 (2d Cir. 1998).

56. *Id.* at 235.

57. *See Montgomery v. Alocoa, Inc.*, No. 99-CV-73350-DT, 2000 WL 1769526 at *7-8 (E.D. Mich. Sept. 29, 2000) (holding that a programmer who received benefits, was paid and taxed like a salaried employee, maintained an eight-to-five time schedule and developed program on company time and equipment was an employee under the *Reid* test).

58. *Compare Kelstall-Whitney v. Mahar*, No. 89-4683, 1990 WL 69013 at *8 (E.D. Pa. May 23, 1990) (holding that a computer programmer was not working within the scope of employment) *with Rouse v. Walter & Assoc., L.L.C.*, 513 F. Supp. 2d 1041, 1057-61 (S.D. Iowa 2007) (deciding that a scientist who developed a program to assist with compiling research results was acting within the scope of employment when writing the program).

59. No. 94-2364, 1995 WL 541610 (4th Cir. Sept. 13, 1995).

60. *Id.* at *4-5.

61. *Id* at *1, *4.

62. *Id.* at *4-5.

63. *Id.* at *1.

64. *See supra* Part III; 17 U.S.C.A. § 101(2).

65. 969 F.2d 410 (7th Cir. 1992).

66. *Id.* at 411-12.

67. *Id.* at 412.

68. *Id.*

69. *Id.*

70. *Schmidt*, 969 F.2d at 412.

71. *Id.* at 412. 17 U.S.C.A § 201(b).

72. *Schmidt*, 969 F.2d at 413.

73. *Id.*

74. 53 F.3d 549 (2d Cir. 1995).

75. *Id.* at 559.

76. *Id.*

77. *Id.* at 552.

78. *Id.* at 560.

79. *Dumas*, 53 F.3d at 560.

80. *Id.*

81. 210 F. Supp. 2d 839 (S.D. Tex. 2001).

82. *Id.* at 843.

83. *Id.*

84. *See Dumas*, 53 F.3d 549; *Schmidt*, 969 F.2d 410.

85. 161 P.3d 883 (N.M. 2007).

86. *Kirby*, 161 P.3d at 884.

87. *Id.* at 884-85.

88. *Id.* at 885.

89. *Id.* at 886.

90. *Id.*

91. *Kirby*, 161 P.3d at 885 (citing Memorandum Opinion, *State v. Kirby*, 161 P.3d 883 (N.M. Ct. App. May 10, 2005) (No. 24,845).

92. *Id.*

93. *Id.* at 887.

94. *See id.* at 888-89 (citing *Janes v. Watson*, No. SA-05-CA-0473-XR, 2006 WL 2322820 (W.D. Tex. Aug. 2, 2006); *Holtzbrinck Publ'g Holdings, L.P. v. Vyne Commc'ns, Inc*, No. 97 CIV. 1082, 2000 WL 502860 (S.D.N.Y. April 26, 2000)).

95. *Kirby*, 161 P.3d at 887.

96. *Id.* at 889.

97. *Id.* at 887 n.1.

98. *Id*.

99. *Id*.

100. *Kirby*, 161 P.3d at 887 n.1.

101. 17 U.S.C.A. § 301(a) (West 2005).

102. *Kirby* was decided in a state court that does not have the power to expand or reduce copyrights. However, state courts can decide contracts that deal with copyright in certain instances like assignments of copyrights. This author believes that it is important to understand that the decision was probably made on the basis of contract and not the federal work-for-hire statute. However, the *Kirby* court used federal principles to help interpret the terms of the contract. For a more extensive discussion of copyright preemption and Section 301, see Trotter Hardy, *Contracts, Copyright and Preemption in a Digital World*, 1 Rich. J.L. & Tech. 2 (1995).

103. *See, e.g.*, *Kirby*, 161 P.3d at 885; *Janes*, 2006 WL 2322820; *Holtzbrinck*, 2000 WL 502860.

104. 94 P.3d 845 (N.M. Ct. App. 2004).

105. *Kirby*, 161 P.3d at 885 (citing *Sublett*, 94 P.3d 845).

106. *Id.* at 887-88 (citing *Janes*, 2006 WL 2322820; *Holtzbrinck*, 2000 WL 502860).

107. *Id.* at 889.

108. Growth of users on the Internet has risen 265.6 percent from 2000 to 2007. World Internet Usage Statistics, http://internetworldstats.com/stats.htm (last visited Sept. 22, 2008).

109. *Id.* at 887.

110. *Kirby*, 161 P.3d at 887.

111. *Id.* (citing Steven D. Imparl, Internet Law: The Complete Guide Part.II.4.1 (2006)).

112. *See* Comm. on Internet Navigation and the Domain Name Sys.: Technical Alternatives and Policy Implications, *supra* note 6, at 19.

113. *See* Anticybersquatting Consumer Protection Act, 15 U.S.C.A. § 1125 (d) (preventing a person to register and hold highly sought after domain names for the sole purpose of selling them) (West 1998 & Supp. 2007).

114. *See, e.g.*, Darren Dahl, *Traffic's Up; Website's Down*, INC.COM, Mar. 2008, http://www.inc.com/magazine/20080301/traffics-up-websites-down.html (last visited Sept. 22, 2008).

115. *Kirby*, 161 P.3d at 887.

116. *See* IGNACIMUTHU, *supra* note 5 at 17.

117. For example, many law school professors use "TWEN," a Westlaw teaching tool that provides an online forum for outside class discussions. *See* The West Education Network, http://lawschool.westlaw.com/twen (last visited Sept. 22, 2008).

118. *See* Wikipedia:Overview FAQ, http://en.wikipedia.org/wiki/Wikipedia:Overview_FAQ (last visited Sept. 22, 2008).

119. KEITH HARMAN & ALEX KOOHANG, LEARNING OBJECTS: STANDARDS, METADATA, REPOSITORIES, & LCMS 119 (2007).

120. *See* MySpace Frequently Asked Questions, http://myspace.com/index.cfm?fuseaction=misc.faq&Category=4&Question=7 (last visited Sept. 22, 2008).

121. *See* Yahoo! Geocities, http://geocities.com (last visited Sept. 22, 2008); see also HARMAN & KOOHANG, *supra* note 118, at 118.

122. *Kirby*, 161 P.3d at 887 n.1.

123. *See id.* at 884-85.

124. *See supra* Part IV.A.

125. *Id.* at 887 n.1 (stating that in order for 17 U.S.C.A. § 101(2) to apply, "the parties must expressly agree in a signed written instrument that the work will be work for hire and the work must be commissioned for one of nine uses listed in the Copyright Act.").

126. *See id.* at 886.

127. 17 U.S.C.A. § 101(2).

128. *See supra* Part IV.D. It is up to the parties to have a pre-creation agreement; what work is involved is irrelevant for the temporal requirement.

129. *See* 17 U.S.C.A. § 101(2) (the nine enumerated works are "contribution to a collective work, as a 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").

130. *See, e.g.*, *Janes*, 2006 WL 2322820, at *12 (dismissing work-for-hire claim acknowledging that a Web site where multiple persons were involved in creating components of the site could be a compilation).

131. *See Kirby*, 161 P.3d at 885.

132. *See, e.g.*, *Attig v. DRG, Inc.*, No. Civ.A.04-CV-3740, 2005 WL 730681 at *1 (E.D. Pa. Mar. 30, 2005).

133. *Id.*

134. *Kirby*, 161 P.3d at 888-89.

135. *Id.* at 884.

136. 17 U.S.C.A. § 101(2).

137. *See Dumas*, 53 F.3d at 559.

138. *See supra* Part VIII.D.

139. *See Kirby*, 161 P.3d at 887 n.1; *see also Janes*, 2006 WL 2322820, at *10; *Aymes*, 980 F.2d at 865.

140. 17 U.S.C.A. § 201(a); 17 U.S.C.A. § 101.

141. 868 F.2d 1313 (2d Cir. 1989).

142. *Id.* at 1315.

143. *Id.* at 1317.

144. *Id.* at 1318.

145. *Id.* at 1327.

146. *Weissmann*, 868 F.2d at 1319 (citing *Edward B. Marks Music Corp. v. Jerry Vogel Music Co.*, 140 F.2d 266, 267 (2d Cir. 1944) (holding that a lyrics writer knew that his work will be part of a joint work even though he did not know who would sing or produce the song)).

147. *Weissmann*, 868 F.2d at 1319 (citing *Marks*, 140 F.2d at 267).

148. 13 F.3d 1061 (7th Cir. 1994).

149. *Id.* at 1070-71.

150. *Id.* at 1069.

151. *Id.* at 1069-70.

152. *Id.* at 1070-71.

153. *Erickson*, 13 F.3d at 1071 (citing *Childress v. Taylor*, 945 F.2d 500, 507 (2d Cir. 1991)).

154. *Id.*

155. *Id.* at 1066.

156. *Id.* at 1073.

157. 360 F.3d 644 (7th Cir. 2004).

158. *Id.* at 658-59.

159. *Id.* at 659.

160. *Id.* at 658-59.

161. *Id.* at 659.

162. *McFarlane*, 360 F.3d at 661.

163. *Id.* at 658-59.

164. *See Brown v. Flowers*, 196 F. App'x 178, 188 n.5 (4th Cir. 2006) (questioning if *McFarlane* should be limited to "mixed media" circumstances).

165. *Kirby*, 161 P.3d at 887 n.1.

166. *See supra* Part III.E

167. 17 U.S.C.A § 101.

168. *Id.*

169. *See* IGNACIMUTHU, *supra* note 5, at 17.

170. *See* COMM. ON INTERNET NAVIGATION AND THE DOMAIN NAME SYS.: TECHNICAL ALTERNATIVES AND POLICY IMPLICATIONS, *supra* note 6, at 1-2.

171. *See, e.g., Kirby*, 161 P.3d 833; *Kantemirov v. Goldine*, No. C05-01362 HRL, 2005 WL 1593533 (N.D. Cal. Jun. 29, 2005).

172. 37 C.F.R. § 202.1(a) (2007); *see also Fryer v. Brown*, No. C04-5481 FDB, 2005 WL 1677940, * 4 (W.D. Wash July 15, 2005) (interpreting C.F.R. § 202.1 and holding a domain name not copyrightable).

173. Under *Erickson*, suggestions and direction are not enough to rise to the level of copyrightability. *See supra* note 155 and accompanying text.

174. *McFarlane*, 360 F.3d at 659.

175. *See* footnote 159 and accompanying text.

176. *See supra* Part VIII.B.1-3.

177. *McFarlane*, 360 F.3d at 659 (stating that in the majority of instances the Goldstein test yields sound results but the test is flawed in certain situations).

178. *See* Comm. on Internet Navigation and the Domain Name Sys.: Technical Alternatives and Policy Implications, *supra* note 6, at 1-2.

179. *Kirby*, 160 P.3d at 887.

180. *See* Ignacimuthu, *supra* note 5, at 17.

181. *See supra* note 15.

182. 17 U.S.C.A. § 101.

183. 17 U.S.C.A § 101(2).

184. *See supra* Part VIII.B.1-2.

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Coloring Outside the Lines: The Register of Copyrights' Recent Comments on Compulsory Mechanical Licensing in the Digital Marketplace

By Keith C. Hauprich and Dan Coleman

As Ted Turner brought "colorization" to some of the classic films within the MGM and RKO libraries, Marybeth Peters, Register of Copyrights, is seeking to bring granularity to the compulsory license provisions of the 1976 Copyright Act. Furthermore, as Ted Turner's announced plans to colorize *Citizen Kane* sparked great controversy, Marybeth Peters' proposal will undoubtedly fuel an already raging, three-sided debate among music publishers, record labels and purveyors of digital media.

> *"[T]he Register of Copyrights' expedient strategy is akin to keeping the music business ship sailing along with the technological tide, rather than allowing it to get trapped in the eddy currents of unprecedented digital music services."*

While copyright proprietors might sympathize with the foregoing analogy to Ted Turner's novel-but-misguided repackaging of classic content, it would be unfair to suggest that Marybeth Peters is intent to force her aesthetic preferences upon integrity-bound licensors who wish to preserve the "traditional" contours of compulsory licensing. Rather, the Register of Copyrights' expedient strategy is akin to keeping the music business ship sailing along with the technological tide, rather than allowing it to get trapped in the eddy currents of unprecedented digital music services.

On July 16, 2008, the Register of Copyrights proposed amending the regulations of the Copyright Office of the Library of Congress "to clarify the scope and application of the Section 115 compulsory license to make and distribute phonorecords of a musical work by means of digital phonorecord deliveries" (DPDs). Early in the text of her proposal, the Register offers at least two justifications for her taking responsibility to elucidate and reconcile conflicting or confusing aspects of digital distribution: (1) her mandate as the Register under Section 702 of the Copyright Act authorizes her to do so when Congress is silent (as it has been on copyright matters during these turbulent few years), and (2) since her future role will be to provide a "final, administrative determination" regarding the decisions of the Copyright Royalty Judges (as discussed below), she wishes to articulate her current understanding.

In accordance with the Copyright Royalty and Distribution Reform Act of 2004 (CRDRA) three Copyright Royalty Judges (CRJs) were empowered to set rates and terms for mechanical royalties under Section 115 of the Copyright Act. Currently, the National Music Publishers' Association, Inc. (NMPA), the Songwriters Guild of America (SGA), the Nashville Songwriters Association International (NSAI), the Recording Industry Association of America (RIAA) and the Digital Music Association (DiMA) are engaged in a mechanical and digital phonorecord delivery rate proceeding before the CRJs. At issue are the rates for physical phonorecords (e.g., CDs), downloads, streaming,[1] and ringtones. Such rates will be effective from January 1, 2008 through December 31, 2012.

The music publishing community, the RIAA and DiMA are not reading from the same script when it comes to proposing such rates. For example, regarding physical phonorecords, the NMPA is proposing a rate increase to 12.5 cents per song (with adjustments for inflation), while the RIAA is proposing a rate decrease to 7.8 percent of a licensee's wholesale revenue (e.g., roughly six cents per song). Regarding permanent downloads, the NMPA is proposing 15 cents per song (with adjustments for inflation), while the RIAA is proposing 7.8 percent of a licensee's wholesale revenue (e.g., roughly five cents per song sold at 99 cents), and DiMA is proposing 4.1 percent of a licensee's receipts (e.g., roughly four cents per song sold at 99 cents). Regarding limited downloads, the NMPA is proposing the greater of: 15 percent of revenue, 33.3 percent of content costs, and the greater of $0.0033 per use or $0.00064 per minute (with adjustments for inflation), while the RIAA is proposing 7.8 percent of a licensee's wholesale revenue (e.g., roughly 40 cents per $9.99 subscription and 60 cents per $14.99 subscription per month), and DiMA is proposing four percent of a licensee's receipts (e.g., roughly 38 cents per $9.99 subscription and 58 cents per $14.99 subscription per month). Finally, regarding interactive streaming, the NMPA is proposing the greater of: 12.5 percent of revenue, 27.5 percent of content costs, and the greater of $0.00275 per use or $0.00053 per minute (with adjustments for inflation), while the RIAA is proposing 9.6 percent of the applicable performance royalty.

As the rebuttal phase of this proceeding draws to a close, the Register proposes

> to amend its regulations in a way that would enable digital music services to utilize the compulsory license to clear all reproductions and distribution rights in musical works that might be necessary in order to engage in activities such as the making of full downloads,[2] limited downloads,[3] On-Demand streams[4] and non-interactive streams.[5]

Such changes would permit digital music services to utilize a compulsory mechanical license to cover phonorecords made on the transmission service's servers, phonorecords made on the end-users' hard drive or random access memory, as well as phonorecords made during the course of delivery from server to recipient.

The Register expressly notes that the proposed changes *do not* take a position as to whether a license is *required* to cover the reproduction or distribution of a musical work in order for a digital music service to "engage in activities such as streaming." Rather, such proposed changes would allow a digital music service "to engage in such activity without fear of incurring liability for infringement of the reproduction and distribution rights" by securing a license pursuant to Section 115. The Register further notes that the proposed changes *do not* preclude the relevant parties from arguing to the CRJs that the applicable royalty fees for certain activities should be nominal or gratis.

The proposed changes for which public comments were welcome (i.e., initial comments were due by August 15, 2008 and reply comments were due by September 2, 2008) would seemingly settle an issue that has persisted since the passage of the Congressional Act which expanded the scope of Section 115 to include DPDs in 1995. Pursuant to the Digital Performance Right in Sound Recordings Act (DPSRA) of 1995, Congress mandated that the rates and terms for DPDs should distinguish between: (1) DPDs where the reproduction or distribution of a phonorecord is *incidental* to the transmission which constitutes the DPD; and (2) DPDs in general.

The Register indicates her understanding that all modes of transmission should fall under compulsory licensing statutes. Essential to the Register's analysis are two points. First, the Register states that "no participant [in the Register's June 15, 2007 Roundtable discussion]" nor any commentary submitted to her office

> offered any evidence or argument that streaming music services [of any kind] are able to operate in a way in which no reproduction of the sound recording or the musical work embodied therein is made. . . . It appears that in the course of all stream transmissions buffer reproductions are made on the recipient's device.

In other words, a DPD of some kind is a necessary component of all transmissions. Second, as a corollary, the Register states that the distinction between a DPD and an "incidental DPD" (as expressed in the language of the DPSRA) may be rejected as moot because *any* DPD is subject to a compulsory license.

> *"[T]he Register's comments portend a compulsory licensing framework tethered to other exclusive rights under copyright (such as the public performance right), even if those latter rights are not subject directly to a compulsory license."*

The Register is careful to note that the distinction between DPD and "incidental DPD" may be tenable in the context of statutory rate setting, and she implies that the CRJs will have to consider such a distinction. Moreover, the Register notes that, while she advocates the application of compulsory licensing to all modes of digital transmission, she does not preclude the simultaneous applicability of exclusive rights of public performance. In both of the foregoing contexts (which fall outside the narrow boundaries of compulsory licensing provisions), the Register appears to suggest that economic analysis will be required to settle upon rates that encompass additional licenses under copyright.

Similarly, the Register's comments portend a compulsory licensing framework tethered to other exclusive rights under copyright (such as the public performance right), even if those latter rights are not subject directly to a compulsory license.

The setting of new rates by the CRJs is eagerly anticipated by all participants in the music business, though concern tends to be focused on (1) inflation-adjusted schedules and (2) harmonization with business practices outside the U.S. Crucial to Section 115 reform is distinguishing between current commercial uses of exclusive rights under copyright, and the economic valuation thereof. If contours are blurred by changing technology—if we appear to be coloring outside the lines—then the statutory rates must reflect such evolutionary progress.

Endnotes

1. On January 7, 2008, DiMA made an unsuccessful motion that an interactive stream is not a DPD and therefore would not require a mechanical license or payment of mechanical royalties.
2. A download that results in a permanent, authorized copy of the recording being fixed on the consumer's storage device (e.g., a hard drive or MP3 player), such as those downloads currently offered by the Apple iTunes service at the time of this writing.
3. A download to a local storage device using technology that causes the downloaded file to be available to the consumer either during a limited time (e.g., tied to subscription payments) or

under limited circumstances (e.g., on an MP3 player, but not on a compact disc).

4. An on-demand, real-time transmission using streaming audio technology such as Real Audio, which permits users to listen to the music they want when they want it, but without a copy being permanently fixed on the consumer's storage device.

5. A digital transmission of a sound file that has the effect of a terrestrial radio broadcast (i.e., it cannot be started, stopped, or time shifted at the consumer's discretion) but which may require an ephemeral download.

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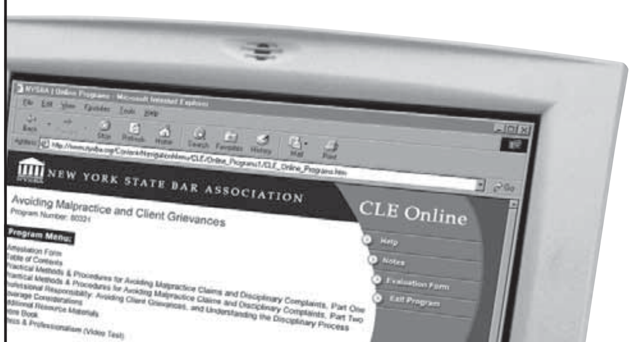
Dan Coleman (Managing Partner of "A" Side Music, LLC) was born in New York City and educated at the University of Pennsylvania and The Julliard School. His original concert music has been commissioned, performed and recorded by leading American symphonies and chamber ensembles. Dan has composed string arrangements for popular albums on the Geffen, A&M, and Atlantic record labels, including projects by Lisa Loeb and Calexico. In 2001, Dan served as an orchestrator for David Mamet's caper film "Heist." In 1999, Dan entered the music publishing business as the administrator for R&B songwriter John Legend's nascent catalog. Currently Dan administers "A" Side's roster of musical luminaries, including Rock and Roll Hall of Fame inductee Ronnie Spector, leading jazz pianist Brad Mehldau, and many others. Dan enjoys commenting on music publishing and copyright matters and has been invited as a guest speaker at Harvard, MIT, Johns Hopkins, and the University of Arizona Rogers School of Law.



Art Theft : The Isabella Stewart Gardner Museum Heist and An Investigation into Title and Statute of Limitations

By Shima Ebrahimi

It was on March 18, 1990, at 1:24 a.m., and the streets of Boston were winding down from St. Patrick's Day festivities. Two thieves made their way through the night, and they fixed their gaze on their victim, the Isabella Stewart Gardner Museum. They knocked on the museum door, and astonishingly the night guardsmen let them in. The bandits threw the guards, duct-taped and handcuffed, into the basement, and they disarmed the museum's video cameras. They took nearly two hours scouring the galleries for their loot, and at the end of the scene, 13 works of art, worth an estimated $500 million, vanished into thin air.[1] This was the greatest art heist in history.

Among the stolen art works were three Rembrandts, including the artist's sole seascape, *Storm on the Sea of Galilee*, Vermeer's *The Concert*, five Degas sketches, a Manet portrait, Flinck's *Landscape with an Obelisk*, a Chinese bronze beaker, and a bronze eagle that adorned the top of a Napoleonic flag.[2] In the wake of the plunder, only empty frames remained, their precious contents brutally cut away and taken into the shadows.

FBI special agent Geoffrey J. Kelly has headed the Gardner Museum investigation since 2003. Over the years, Kelly has chased down countless leads, and the cast of suspects has included the Irish Republican Army, James J. "Whitey" Bulger, a Boston crime boss and FBI informant, and Myles J. Connor Jr., New England's top art thief.[3] Today, 17 years after the heist, the case remains unsolved. The Gardner Museum theft is listed on the FBI's Top Ten Art Crimes, and a $5 million reward stands for "the safe recovery of all stolen items in good condition."[4] Neither the FBI, Interpol, Scotland Yard, nor Japanese or French authorities have been able to uncover the whereabouts of the 13 snatched art works. In all these years, no one has seen the missing works, there have been no plausible demands for ransom, and no arrests have been made.

Fighting the growing problem of art theft are organizations like the International Foundation on Art (IFAR) and the Art Loss Register (ALR), formed in 1969 and 1991, respectively. In 1977, IFAR developed the first international database of stolen art, and, currently, the Art Loss Register is the world's largest database of stolen cultural objects. The ARL lists more than 160,000 missing items, including the 13 items seized from the Gardner Museum. It also serves as a clearinghouse for information on stolen art, assisting law enforcement agencies, insurers, dealers, museums and collectors in the campaign against art theft.[5] Additionally, the FBI has a special Art Crime team of 12 agents dedicated to investigating art and cultural property crime,[6] an Interstate Theft Division, special agents in New York and Los Angeles, and maintains the National Stolen Art File, indexing more than 60,000 looted items.[7] Interpol, the international police organization encompassing 186 countries, also maintains a list of stolen art works.[8] Despite all this, sadly, the outlook for recovering stolen art works is bleak. Less than five percent of the art stolen in the United States is found, and in Europe, the recovery rate is about 10 percent.[9]

The Gardner theft is one of many that have plagued the art world. The seductive aura of the art heist has inspired numerous Hollywood movies such as "The Thomas Crown Affair," "Hudson Hawk," "Entrapment," "Art Heist," and "Stolen," the last of which is specifically about the Gardner Museum heist. Lest one look at these movies and think that pilfering art is a modern idea, keep in mind that evidence of looting from Egyptian mummy tombs dates back to ancient times, and that the Nazis were notorious for stealing art from the homes of their victims. Today, the black market for stolen art is bigger than ever. Insurance companies pay out between $3 billion to $5 billion per year on stolen art insurance claims, and it is estimated that the black market is as high as $6 billion a year. A major part of the clandestine global economy, art theft trails only behind illicit money from drugs and guns.[10]

"[T]he outlook for recovering stolen art works is bleak. Less than five percent of the art stolen in the United States is found, and in Europe, the recovery rate is about 10 percent."

Art is fashionable, and it signifies power, wealth and prestige. Art prices are at an all-time high, and when art works sell for astronomical prices, the auction houses boast about their success, thus bringing public attention to the fact that art is very expensive. The art market is a global economy where art is viewed as an investment, and collectors and crooks alike are aware that art has massive profit potential. These factors comprise the perfect recipe for a heist: criminal minds, organized crime, a sexy steal, and billions of dollars at stake. "Valuable works of art are relatively small, easily hidden, and easily moved both within and out of a country. Many thefts of art are never reported to the police, as the victims often fear that if the theft is publicized, other thieves will try to capitalize on their lack of security. Many also believe that publicity about the theft will just drive the art further underground."[11] The potential payoff of successfully selling stolen art is huge. Art appreciates as it ages, and art theft laws have statutes of limitations, so for a criminal to safely sell stolen art, it is a waiting game. The rightful owners like the Gardner Museum basically just have to wait for the stolen art to resurface, and if it does, it is not necessarily guaranteed they will get it back.

> *"The potential payoff of successfully selling stolen art is huge. Art appreciates as it ages, and art theft laws have statutes of limitations, so for a criminal to safely sell stolen art, it is a waiting game."*

Modern theft laws have deep roots. The law of larceny was designed to protect personal property from misappropriation and stealing, and it was a felony punishable by death. The Industrial Revolution brought about changes in theft law, and it eventually evolved into the law as we know it today. Federal law recognizes more than 100 different kinds of larceny-thefts. About 30 states use a consolidated theft approach, listing thefts by the type or value of property involved, while about 20 states use a larceny approach, which relies upon common law definitions. The federal statute for prosecuting museum thefts is Interstate Transportation of Stolen Goods [18 U.S.C. § 2314], which "pertains to objects valued over $5,000 assumed to cross state lines." In 1994, as a result of the Gardner case, Senator Edward M. Kennedy introduced the Theft of Major Artwork [18 U.S.C. § 668] statute, making it a felony to "obtain by theft or fraud any museum object more than 100 years old and worth $5,000 or more; the law also covers any object worth at least $100,000, regardless of its age, and prohibits possession of such objects if the owner knows them to be stolen."[12] The penalty for both of these statutes is imprisonment for up to 10 years, and a possible fine. Judges are no longer bound to solely base a criminal's punishment on a stolen object's appraised monetary value, and hence they may cite the cultural or historical value of a stolen object when considering sentencing. The statute of limitations for the Interstate law is five years, and for Major Theft is 20 years.[13]

Since a thief does not possess the title to stolen art, he cannot pass it to a purchaser, even if it is a good faith purchaser who knows nothing about the work having been obtained illegally. The reason for this is because the stolen work has void title. If it is discovered that the purchaser is in possession of stolen art work, the original owner can bring a civil action of replevin against him to recover the art work, and / or seek damages for "unlawful dominion and control" of the art work through an action in conversion.[14] This situation in which the original owner is pitted against a good faith purchaser is not an easy task for the courts to evaluate, as both are innocent victims of the crime. Consequently, the courts are spilt on how to deal with the issue.

For the owner to bring a claim against the purchaser, the action must be within the statute of limitations for filing suit. All states have statutes of limitations time-barring bringing a cause of action to recover property, and that period of time varies from state to state. The statute of limitations typically ranges from three to six years after the work is acquired by the purchaser, and most states operate on this concept of accrual of cause of action. That means if the owner sleeps on his rights and the statute of limitations passes, then he has no recourse for having his stolen art work returned to him. However, due to the difficulty and delay in recovering stolen art, courts have been reluctant to hold that the applicable statute of limitations bars a theft victim's right to recover his property. Over the years, "courts have employed several distinct doctrines to aid their determinations of whether an original owner can bring suit, beyond the applicable limitations period, against a *bona fide* purchaser of his or her stolen art."[15] To measure the accrual of replevin claims and determine when the cause of action begins to accrue, U.S. courts currently use two methods: the Discovery Rule, and Demand and Refusal.

"Today's reigning doctrine, the Discovery rule, focuses solely on the original owner's actions to determine whether such an owner can bring a claim."[16] Under the Discovery rule an original owner's cause of action does not accrue "until the injured party discovers, or by exercise of reasonable diligence and intelligence should have discovered, facts which form the basis of a cause of action."[17] The Discovery rule "shifts the emphasis from the conduct of the possessor to the conduct of the owner. The focus of the inquiry will no longer be whether the possessor has met the test of adverse possession but whether the owner has acted with due diligence in pursuing his or her property."[18] Thus, the burden of proving due diligence rests on the original owner. California has legislation governing the accrual of a cause of action in the case of a stolen artwork. It provides that an action must be brought within three years of "the discovery of the whereabouts" of the work "by the aggrieved party."[19] Similarly, the rule of Discovery is how most U.S. courts decide accrual.

A notable court decision concerning property is the 1980 case of *O'Keeffe v. Snyder*, which is central to the application of the Discovery rule. O'Keeffe, a famous American painter, alleged that several of her paintings were stolen from her studio in 1946. She did not register them stolen until 1972, and in 1975, Snyder purchased the paintings from a dealer who claimed they had been in his family for decades. O'Keeffe discovered the paintings in Snyder's gallery in 1976, and she "instituted an action of replevin to recover them."[20] By the Discovery rule, the "cause of action will not accrue, and thus the statute of limitations will not begin to run, until the injured party discovers, or by reasonable diligence should have discovered, facts which form the basis of the action.[21] The New Jersey Supreme Court determined that

> O'Keeffe should be given the benefit of the Discovery rule. Accordingly, the Supreme Court "dispensed with the tests for adverse possession, stating that these tests were not a fair and reasonable means of resolving this kind of dispute. The court held that the Discovery rule should be applied instead, and explained that the rule would avoid the harshness that might result from a mechanical application of any statute of limitations.[22]

Alternately, in New York, Demand and Refusal and laches apply. The Demand and Refusal rule holds that the statute of limitations does not begin to run until the owner demands return of the stolen work, and the purchaser refuses to return it. In essence, "until demand is made and refused, possession of the stolen property by the good faith purchaser for value is not considered wrongful."[23] This rule is more protective of the owner's rights, and may even seem unfair to the good faith purchaser. In balancing this out, the courts will usually take into consideration laches, meaning the degree to which there has been an "unreasonable delay in seeking the return of the art work, and if that delay prejudiced the purchaser's refusal to return the art."[24] The defense of laches is "based on an unwarranted delay that would give rise to an assumption that the complainant has waived his or her rights."[25] The 1991 case of *Guggenheim v. Lubell* exemplifies this.

In *Guggenheim v. Lubell*, The Guggenheim Museum in New York City sought to recover a Chagall gouache worth an estimated $200,000. The museum "believed that the gouache was stolen from its premises by a mailroom employee sometime in the late 1960s."[26] The appellant, Lubell, had bought the painting from a reputable Madison Avenue gallery in 1967, and displayed it in her home for more than 20 years. Lubell claimed that before the Guggenheim's demand for its return in 1986 she had no reason to believe that the painting had been stolen.[27] The museum failed to notify any law enforcement agency, museum, gallery, or art expert about the theft. The Guggenheim claimed that it had remained silent in order to avoid driving the art further underground, and the "museum's Board of Trustees voted to deaccession the gouache, thereby removing it from the museum's records."[28] The court remanded the case to the trial court to determine whether the Guggenheim was guilty of laches. On appeal, the court had to decide if the museum's "failure to take certain steps to locate the gouache is relevant to the appellant's statute of limitations defense."[29] The appellant argued that the museum had a "duty to use reasonable diligence to recover the gouache, that it did not do so, and that its cause of action in replevin is consequently barred by the statute of limitations."[30] The Appellate Division rejected the appellant's argument, and decided that the defense of laches was viable.

"Regarding Demand and Refusal, this author agrees with the court that the original owner should have a right to recover the stolen art work, but I also can see how this can be unfair to the good-faith purchaser who has no clue the art was stolen."

Regarding Demand and Refusal, this author agrees with the court that the original owner should have a right to recover the stolen art work, but I also can see how this can be unfair to the good-faith purchaser who has no clue the art was stolen. If many years pass, as in the *Guggenheim v. Lubell* case, the art work can significantly appreciate while in the hands of the purchaser. It does not seem fair that the purchaser would only receive back the purchase price in this case. The purchaser may have been counting on the money from the sale of the work to support a family during retirement, and to have that snatched away after any number of years does not seem right. The Discovery rule also has its faults. The O'Keeffe court placed burden on the victim of the theft, to "exercise due diligence in seeking to recover the stolen property."[31] This is not an easy thing to establish, and a major shortcoming of the Discovery rule is its "failure to consider whether the purchaser exercises due care and reasonable prudence."[32]

As for the Gardner Museum theft, as more time passes since the robbery, the greater the chance of finding the thieves. The bad news is that they may never be prosecuted for their crime, as the statute of limitations on robbery in Massachusetts ran out 11 years ago. The only applicable federal law that could be enforced is for Major Theft, but that was not enacted until four years after the Gardner heist. Another unfortunate circumstance was that at the time of the robbery, the Gardner Museum did not have insurance for its collection. The board had decided several years earlier not to insure the collection due to the expense. It was typical at the time, that when museums' operating costs rose, they would cut their guard staffs and replace them with closed-circuit cameras and other electronic-monitoring devices. Since the robbery; however, the Gardner Museum has obtained insurance and it has expanded its security system. Today, the museum's security staff is larger than any other department in the museum. Likewise, since the Gardner heist, many museums across the country have upgraded their security systems. U.S. museum crime has dropped as a result, and only a handful of thefts have been reported in the decade after the Gardner theft.

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Sounds Like a Lawsuit! Comparative Analysis of P2P Software Cases

By Alice JaKyung Choi

Imagine for a minute that this is 1999, and Yang, a bright, technology-savvy, international student from Korea, is studying computer programming at Columbia University. One day, he goes on the Internet and stumbles upon an incredible Web site called Napster, which allows free music-file sharing. Yang intuitively knows that this is going to be a huge hit, and becomes extremely excited. He therefore decides to design a software program just like Napster, a file-sharing program that relies on a peer-to-peer (P2P) distribution network, which means that the available music files do not reside on a centralized server, but rather are shared over a network of individual users connected to each other using the file-sharing program. The central server does not store MP3 files. However, it saves the list of files that users have on their computers and directly manages information. The central server only shares information of where the files are located when a user requests such information. Therefore, when a user actually wants to download a file, he does not go through a central server, but obtains it directly from the user who has the file. The student entrepreneur knows that this is going to be an enormous success, and asks his brother, who is also a computer programmer (and studying at Virginia Tech), to collaborate in the development of a program called SORI[1]-BADA,[2] which means "Ocean of Sound" in Korean. By the beginning of 2000, the software is fully developed. The Yang brothers immediately fly back to their home country and on May 18, 2000, they release the software SoriBada 1 for free on http://www.soribada.com.

Within a matter of days, most of Yang's friends have joined as members; within weeks, word of mouth spreads quickly throughout the Internet of this "Napster of Korea," SoriBada, and within months, it had more than five million members,[3] with more than 500,000 users logging on the Web site each day. Yang's vision was correct. Combined with the synergy effect of the Korean MP3 player market sky-rocketing around the same period, SoriBada's Web site soon became one of the most popular Web sites in Korea, and Yang became famous as the new, successful, 25-year-old CEO who dominated the digital music industry.

Unfortunately for Yang, on January 18, 2001, he was faced with criminal charges for copyright infringement and neighboring rights.[4] In August 2001, phonogram producers in Korea sued him for copyright infringement.[5] Although the trial court dismissed the criminal charges for copyright infringement in 2003 for failure to state a specific claim, the prosecution appealed. In 2005, the appellate court found Yang not guilty. On the other hand, domestic and foreign music producers applied for a provisional disposition[6] against Yang in July 2002. The trial court accepted the motion for provisional disposition and prohibited SoriBada 1 users from uploading or downloading MP3 files. In addition, the court ordered the discontinuance of SoriBada's server service. Yang demurred. Nonetheless, the court affirmed the judgment of the trial court. Yang appealed this decision and applied for a writ of certiorari to the Supreme Court, but the Supreme Court denied the writ, affirming the appellate court's decision on December 14, 2007.

Obviously this is not a hypothetical case, but an actual, very controversial case in Korea. This article focuses specifically on the comparison of the SoriBada case and a series of similar cases such as *A&M Records, Inc. v. Napster, Inc.*,[7] *In re Aimster Copyright Litigation*,[8] and *MGM Studios Inc. v. Grokster*.[9] *SoriBada* is an interesting case to analyze, partly because it deals with one Web site that faced three stages of litigation in contributory copyright infringement cases. The first stage concerns SoriBada 1 and is analogous to the *Napster* case. The second half of litigation includes SoriBada 3, which parallels the *Grokster* case. Finally, the creators of SoriBada learned their lesson, took all the precautions and guidelines set out in the *SoriBada 3* case, and launched a new ambitious software, SoriBada 5. Nevertheless, in a highly contentious decision, the Korean Court of Appeals held for the plaintiffs, overruling the trial court's decision on October 10, 2007. The Korean Court of Appeals prohibited the distribution or the use of SoriBada 5. The lawfulness of the technology behind SoriBada 5 has yet to be decided here in America.

Part I of this article will discuss how the U.S. Supreme Court dealt with the issue of contributory copyright infringement in *Grokster*[10] and how the holding applies to *SoriBada 5*. Part II will analyze the *SoriBada 5* decision in Korea and Part III will examine the application of the rules from the contributory infringement cases to *SoriBada 5*. In addition, this article will conduct a product analysis of SoriBada 5, comparing it with iTunes,[11] YouTube[12] and BitTorrents.[13]

I. Comparative Analysis

a. Development of Contributory Copyright Liability

The U.S. Copyright Act of 1976[14] (the Act or the Copyright Act) grants a number of exclusive rights to the holder of a copyright, such as rights of reproduction, distribution, and public performance.[15] The Act makes clear that any party who violates any of these exclusive rights will be liable as an infringer.[16] Although the Act imposes liability for violations of copyright rights by direct infringers, no statutory provision governs the liability of third parties who assist in, or contribute to, the infringement of copyright. Contributory copyright liability is a judicially created doctrine derived from general common law principles.[17] The purpose of contributory copyright liability is to "empower copyright owners to sue the root cause of numerous infringements," rather than having to sue a "multitude of individuals for direct infringements."[18]

> *"Napster's creators adopted a technology that gave them a method to circumvent the traditional copyright infringement liability. This technology, now known as P2P technology, allowed users to share their own file."*

The modern doctrine of contributory copyright liability was first articulated in *Gershwin Publishing Corp. v. Columbia Artists Management, Inc.*[19] In that case, the U.S. Court of Appeals for the Second Circuit examined whether a concert promoter should be liable when musicians performing at the promoter's concerts played copyright-protected works, thereby infringing on the copyright owners' exclusive rights of public performance.[20] The Second Circuit found that the promoter should be liable as a result of the direct infringements that occurred at the concert, under theories of both contributory and vicarious liability. With respect to contributory liability, the court held that such liability would be entirely appropriate where a defendant, "with knowledge of the infringing activity, induces, causes, or materially contributes to the infringing conduct of another."[21] The *Gershwin* court thus established the two main prongs of the modern contributory copyright liability analysis: (1) knowledge of a direct infringement by a third party and (2) a material contribution to that infringement.

The next seminal case came 13 years later, when the United States Supreme Court decided *Sony Corp. of America v. Universal City Studios, Inc.*[22] The plaintiffs first asserted that the Video Tape Recorder (VTR)[23] was being used to record copyright-protected works from the television airwaves and that such actions infringed on the owners' exclusive rights under the Copyright Act.[24] Rather than suing each direct infringer for the unauthorized copying of the plaintiffs' films, the plaintiffs chose to sue Sony, alleging that its manufacturing and marketing of the VTR should make it liable for contributory copyright infringement.[25] The *Sony* majority commenced its analysis by observing that the VTR could be used to record both copyrighted and non-copyrighted works. According to the Court, the invention had a "range of . . . potential use[s]."[26] Drawing an analogy to patent law, the majority noted that the Patent Act's[27] definition of patent infringement exempted from liability those "staple article[s] . . . of commerce" that are suitable for "substantial non-infringing uses."[28] The Court construed the "substantial noninfringing use" language in the Patent Act as standing for the more general premise that where an invention is potentially used for patent infringement, but is also adapted for other lawful, non-infringing uses, those facts alone would not be sufficient to hold the inventor liable as a contributory infringer.[29] Relying on this patent law analogy, the Court held that in a copyright context, a party could not be liable as a contributory infringer solely on the grounds that it manufactured and sold an item of copying equipment. Rather, the Court held that if a copying item were capable of "substantial" or "commercially significant noninfringing uses," the manufacturer would not be liable for contributory copyright infringement.[30] Although *Sony* has remained the cornerstone case construing contributory copyright liability, the opinion has generated ripples of confusion among circuits in its application. In recent years, the application of the *Sony* doctrine has been the essential question in deciding cases involved with P2P technology.

b. *Napster* versus *SoriBada 1*

Before the notorious Napster thrived on the Internet, the music industry was already experiencing headaches due to the increasing rate of illegal music downloading from Web sites like MP3.com.[31] MP3.com used a technology where the administrator owned and converted into MP3 music files thousands of popular CDs. The administrator placed the files up on its central server so that the subscribers to MP3.com could replay them on the Web site.[32] In that case, the court had little trouble rejecting the defendant's argument that the MP3 files were not reproductions under the Copyright Act, because "the simulated sounds on MP3-based music files are not physically identical to the sounds on the original CD recordings."[33] The defense argued fair use, but was held liable for copyright infringement.[34] However, in contrast to MP3.com, Napster's technology was inherently different, because it did not allow users to download files directly from its server. Napster's creators adopted a technology that gave them a method to circumvent the traditional copyright infringement liability. This technology, now known as P2P technology, allowed users to share their own files.

Generally, the Internet is comprised of servers that provide information, and clients (users) that request for information. The traditional network method (server-client method) works when the user connects to a server and finds all the information that is saved on that server (server to client). However, the P2P technology allows users to share the files or data that are saved on their own personal computer hard drives without going through a centralized server, thereby allowing users' computers to function like servers. P2P technology does not require uploading to a server. Transferring the data into a shared folder on each user's own computer is equivalent to the uploading function. Napster had a centralized server to help individual users connect or communicate to each other.[35] Although the central server did not store MP3 files, it did save the lists of files that users had on their own computers, and the server managed these lists.[36] The central server only supplied information so that users could locate the files they wanted. Therefore, when users actually wanted to download files, they did not go through a central server, but obtained them directly from other users.

SoriBada 1 was modeled after Napster and its architecture was comparable. The central server in SoriBada 1 stored information like the subscriber's most recently connected Internet Protocol (IP) addresses so that it could manage information needed to connect to other subscribers. Thus, when a subscriber connected to the SoriBada 1 server, the server automatically sent the information of all connected users, who could then connect to each other to find the MP3 files requested through the IP addresses provided by the central server.

The copyright infringement cases against Napster and SoriBada 1 focused on whether the P2P programs had control over their systems. In *Napster*,[37] the Ninth Circuit commenced its analysis of Napster's contributory liability by setting out the two familiar elements of contributory infringement: (1) knowledge of a direct infringement and (2) a material contribution to that infringement.[38] With respect to knowledge, the court found that the defendant Napster had "actual, specific knowledge" of the infringements taking place on its network, that Napster had the potential to stop those infringements by blocking access, and that it failed to do so.[39] With respect to Napster's "material contribution," the court found that Napster provided the site and facilities for the infringing activities by maintaining indexing central servers and providing technical support to its users.[40] Consequently, the Ninth Circuit found Napster liable for both contributory and vicarious copyright infringement.

Similarly, in *SoriBada1*, the Supreme Court of Korea affirmed the Court of Appeals decision by denying the writ to revisit the case,[41] stating that the Yang brothers knew, or should have known, that there would be infringement of copyrights and the related rights through the use of SoriBada 1. Therefore, using the centralized server to give connection information to other subscribers facilitated the infringement process by allowing users the ability to share the MP3 files through P2P technology. This gave rise to aiding and abetting liabilities. Thus, in essence, the Korean Court used the two prongs analogous to the ones used in *Napster* in its analysis.

The injunction ordered in *Napster* led to the company's bankruptcy. The name and logo of Napster were auctioned off to another digital media company,[42] which now operates as a legal pay-per-song music download Web site (Napster, LLC), and is a competitor of iTunes. SoriBada fared better. It dodged the consequences of the injunction ordered by making itself into a corporation named SoriBada, Co., and released a new version of software called SoriBada 3.[43] Therefore, in reality, SoriBada never discontinued its service. Meanwhile, the *Grokster* litigation was on its way to the Ninth Circuit for interpretation of contributory copyright infringement.

"The injunction ordered in Napster *led to the company's bankruptcy."*

c. *In re Aimster Copyright Litigation*

While the Ninth Circuit was giving its own reading to the *Sony* test in *Napster* and subsequently in *Grokster*,[44] the Seventh Circuit stepped into the debate with its opinion in *In re Aimster Copyright Litigation*.[45] Aimster involved a popular file-sharing program, which operated in connection with America Online's Instant Messaging Service,[46] allowing users to exchange both copyright-protected[47] and non-copyright-protected files.[48] Aimster was sued on theories of contributory and vicarious copyright liability.[49] The evidence before the district court suggested that the defendant exercised a moderate level of involvement and control over the program; Aimster maintained its own server, hosted a Web site, and provided "how to" tutorials for new users of the program.[50] As a result, the district court found the defendant liable for contributory and vicarious infringement and granted a broad injunction against the company.[51]

Aimster appealed the decision, and Judge Posner of the Seventh Circuit analyzed the case using the *Sony* rule. He acknowledged that Aimster was clearly capable of both infringing and non-infringing uses.[52] The Court recognized that although the program may be used for the "expeditious exchange of confidential business data among employees," copyright-protected works were undeniably being exchanged.[53] The Seventh Circuit applied *Sony*, stating that when faced with a product involving both infringing and non-infringing uses, an estimate of the "respective magnitudes of the uses is necessary for a finding of contributory infringement."[54] Accordingly, the Court held that a defendant would not be able to escape liability for contributory infringement merely by showing that its product could be used in non-infringing ways.[55] Since nearly every product was at least capable of non-infringing uses, merely having the capability of non-infringing use was insufficient for a defendant to escape liability.[56] Rather, a defendant would have to show that its product was used for substantial non-infringing uses.[57] The court found that Aimster had provided no evidence that its services were used for substantial non-infringing uses.[58] In addition to the lack of non-infringing uses, the Court found a high level of facilitation by Aimster.[59] The Court claimed that Aimster provided an open invitation to its users to infringe upon copyrighted-protected material.[60] The defendant argued that it lacked specific knowledge of the infringement being committed by its users. However, the Court construed that such willful blindness behavior is sufficient in terms of the requisite knowledge threshold for contributory liability.[61]

The Seventh Circuit's opinion in *Aimster* differed from the Ninth Circuit's approach. The Seventh Circuit placed its emphasis on the substantial recurrences of non-infringing uses[62] rather than on the mere capability of such uses, and implied that a significant quantity of actual non-infringing uses must be shown to qualify as "substantial" under *Sony*. Although the Seventh Circuit did not expressly discuss the two-prong *Gershwin* test for contributory liability—i.e., knowledge and a material contribution--it made clear that the "knowledge" prong would be satisfied by a showing of willful blindness or "ostrich-like" behavior.[63] The defendant in *Aimster* was deemed to have the requisite knowledge for contributory liability, despite a paucity of evidence that it had been made aware of specific instances of infringements occurring on its system. These P2P cases accentuated a split between the Ninth and Seventh Circuits over how to properly interpret and apply *Sony*. In applying *Sony* to file-sharing software, the circuits reached conflicting outcomes, with each emphasizing different aspects of the *Sony* doctrine.

"Evidence was clear that the defendants' 'principal object' was to infringe on copyrights by distributing their P2P software."

d. *Grokster* versus *SoriBada 3*

Now that programmers knew that hybrid P2P technology was not a sanctuary for avoiding litigation because of its centralized mechanism, they tried to design a way to circumvent these possible liabilities. The leading program developed was the Gnutella technology by StreamCast, also known as Pure P2P technology. This technology made it possible for the users to avoid going through a centralized server to search for a file. Once the P2P software was downloaded and installed on a user's computer, there was no central server operating the program. The search engine was built into the program itself, so that users could search others' computers and download the files directly. The next generation of P2P technology was soon developed to improve the efficiency of the search. Certain users who had high performing computers[64] were operating as a connecting point.[65] Users who started a file search would connect to the Super-node that was easiest to reach, and either used the search information contained in the Super-node, or connected to another Super-node computer that transferred the search order, executed the search, and provided the user with the result. This method was known as FastTrack, employed by KaZaa, Grokster and Morpheus. FastTrack technology enabled millions of users to share files without slowdowns or crashes because of the use of Super-nodes. On October 2, 2001, representatives of the music industry sued Grokster[66] and StreamCast.[67]

Justice Souter wrote the Supreme Court's opinion in *Grokster*,[68] but Justices Ginsburg and Breyer each wrote separate concurrences, which made this decision unanimous but with three plurality opinions. Justice Souter's opinion commenced its analysis with the mechanics and benefits of the P2P technology.[69] The opinion also noted the fundamental importance of achieving "a sound balance between the respective values of supporting creative pursuits through copyright protection and promoting innovation in new communication technologies by limiting the incidence of liability for copyright infringements."[70] When Justice Souter balanced the values between copyright and technology, his opinion made it clear that the evasive conduct of the defendants Grokster and StreamCast in the case strongly weighed in favor of imposing liability.[71] Evidence was clear that the defendants' "principal object" was to infringe on copyrights by distributing their P2P software. In addition, there was evidence that the defendants knew that a high level of infringing activity would be beneficial to their business model. The Court also mentioned that the defendants made no effort to filter copyrighted materials from users' downloads.[72] The conclusion was that copyright liability was completely proper where the case was one about liability resting on imputed intent.[73]

This conclusion prompted the Court to articulate its inducement theory of contributory copyright liability; as the Court explained, "one who distributes a device with the object of promoting its use to infringe copyright, as shown by clear expression or other affirmative steps taken to foster infringement, is liable for the resulting acts of infringement by third parties."[74] In light of evidence in the record that the defendants had advertised their product as being used to infringe copyrights, the defendants had taken no steps to filter from their networks those copyright-protected works.[75] Moreover, the defendants had repeatedly sought to be the "#1 alternative to Napster,"[76] so the Court found an express "objective"[77] to infringe and concluded that contributory liability was entirely appropriate. Justice Souter's opinion made clear that where there was "purposeful, culpable expression and conduct" on the part of a defendant programmer or distributor, or where there was extensive evidence of "advertisement or solicitation that broadcasts a message designed to stimulate others to commit violations,"[78] contributory copyright liability would exist. However, the *Grokster* decision did not help clarify the interpretation of the *Sony* doctrine or contributory infringement by setting forth the new inducement theory that had been borrowed from patent law.

As mentioned in the prior section, while Yang was involved with civil / criminal actions surrounding SoriBada 1, he decided to turn SoriBada into a corporation. On November 5, 2003, Yang established a corporation and developed and distributed a new version of the file-sharing software, SoriBada 2, which used a Superpeer method, similar to the FastTrack method adopted by Grokster. Also, shortly after releasing SoriBada 2, he released an upgraded version, called SoriBada 3, which was based on SoriBada 2, but changed the user interface so that the users did not have to identify which was providing the music file. Therefore, even with the court order of injunction, SoriBada presented its service as a different entity, using a new version that adopted Pure P2P technology.

In 2004, Music Industry Association of Korea (MIAK)[79] sued SoriBada Co. for distributing SoriBada 3 and operating http: / / www.soribada.com, alleging that it was aiding and abetting individual users who were infringing on copyright and related rights. Furthermore, MIAK contended that SoriBada practically induced, provoked and created the genre of infringement of copyright and related rights by the individual users. MIAK sought an injunction. In August 2005, the court granted a motion stating that users of SoriBada 3 could no longer upload or download songs for which MIAK was a trust administrator. Furthermore, SoriBada was prohibited from distributing SoriBada 3 through its Web site and sharing MP3 files through SoriBada 3. SoriBada appealed this order, but the decision was affirmed on October 26, 2005. SoriBada appealed the second denial. However, the appeal was withdrawn when SoriBada and MIAK reached an agreement and settled the case on March 6, 2006.

e. *Perfect 10, Inc. v. Visa Int'l Service Ass'n*

Perfect 10 is an adult subscription Web site[80] that developed from a quarterly published men's magazine with the same name. The administrators of Perfect 10 believed that its copyrighted images were being infringed by numerous Web sites and it decided to act. Rather than suing the numerous Web sites individually that were the actual direct infringers, however, Perfect 10 brought suit against credit card companies, affiliated banks, and data processing services. The plaintiff claimed that the defendants allegedly contributed to and vicariously profited from this infringement.

The Ninth Circuit issued its decision in *Perfect 10 v. Visa Int'l Service Ass'n*[81] on July 3, 2007. The court affirmed the district court's decision, which dismissed all causes of action for failure to state a claim upon which relief can be granted. The majority concluded that credit card processors had too attenuated a connection to the infringing activity to be found liable. This decision completed a trilogy of *Perfect 10* decisions from the Ninth Circuit, which began on March 29, 2007, with its decision in *Perfect 10, Inc. v. CCBill LLC*.[82] That case addressed the liability of CWIE, a web hosting provider, and CCBill, an online credit card processor, under both the safe harbor provisions of the Digital Millennium Copyright Act (17 U.S.C. § 512) and the Communications Decency Act (47 U.S.C. § 230). More recently, the Ninth Circuit decided *Perfect 10 v. Amazon.com, Inc.*,[83] which addressed Amazon's and Google's search engine subsidiary A9's copyright liability for using thumbnail images in image search results, as well as their secondary copyright liability for contributory and vicarious infringement.

In *Perfect 10 v. Visa Int'l Service Ass'n,* the Court examined various formulations of the test used for contributory copyright infringement, including the material contribution theory under *Napster* and inducement theories under *Grokster*. The Court concluded that these tests were non-contradictory variations supporting the same basic standard. One contributorily infringes when one has knowledge of another's infringement and either materially contributes to, or induces, that infringement. Although the defendants satisfied the first prong of the test when they were notified by Perfect 10 regarding the infringement by the third-party Web sites whose payments defendants processed, the Court concluded that the defendants did not satisfy the second prong of the test. Credit card companies did not materially contribute to or induce the third parties into infringement.

In addressing material contribution, the Court focused on *Fonovisa*,[84] *Napster*,[85] and its recent *Amazon*[86] decision. In *Fonovisa,* a swap meet operator was found contributorily liable for sales by vendors of unauthorized copies of copyrighted works. As mentioned earlier, in *Napster*, the operator of an electronic file-sharing system was found contributorily liable for the unauthorized exchange by its users of copyrighted music files. In *Amazon,* the Court merely remanded the issue, stating that Google could be held contributorily liable for infringement by third-party Web sites to which it links, "if it had knowledge that infringing Perfect 10 images were available using its search engine, could take simple measures to prevent further damage to Perfect 10's copyrighted works, and failed to take such steps."[87] The majority distinguished the defendants here from those in *Fonovisa,* because in *Fonovisa*, the infringing material was physically located in and traded at the defendant's market. The swap meet operator provided "space, utilities, parking, advertising, plumbing, and customers" and failed to respond to a notice of infringement even after agreeing to do so.[88] By providing the "site and facilities" for the infringing activity, the defendant was in a "mutual enterprise of infringement" that distinguished that situation from the defendants in *Perfect 10*, in which they were providing payment services for Web sites that contained infringing materials.[89]

The majority distinguished the defendants in *Perfect 10* from those in *Napster* because the latter was "expressly engineered to enable the easy exchange" of infringing content,[90] allowing users to locate, obtain and distribute infringing material. As with *Fonovisa*, Napster was also held to provide the "site and facilities" for infringement, which "increased the level of infringement by providing a centralized place . . . where infringing works could be collected, sorted, found, bought, sold, or exchanged." This served to set those cases apart from the defendants' payment processing services.[91]

The majority similarly distinguished the defendants here from those in *Amazon* because search engine systems were used to locate and provide a link to specific infringing images. The majority wrote that "Google's search engine itself assists in the distribution of infringing content to Internet users, while defendants' payment systems do not,"[92] and that the distinction it was drawing was between "location services and payment services." The Court concluded that "[b]ecause location services lead Internet users directly to infringing images and often display them on the website of the service itself, we find that location services are more important and more essential—indeed, more 'material'—to infringement than payment services are."[93]

The Court recognized that Visa made infringement more profitable, which could increase the likelihood that third parties would engage in such activities, but reasoned that this "additional step in the causal chain"[94] allowed the defendants to be placed outside of the scope of one who materially contributes to infringement. Additionally, the court also articulated the adverse impact the ruling would have if it had ruled that financial institutions were secondarily liable for copyright infringement. Credit card companies receiving bogus notices of possible copyright infringement by a competitor's Web site might stop transactions with that Web site to free itself from secondary copyright infringement liability.[95] The majority also suggested that *Perfect 10*'s interpretation of "site and facilities" was too overbroad, as it would include countless third-parties with a peripheral connection to the infringement, "such as computer display companies, storage device companies, and software companies that make the software necessary to alter and view the pictures and even utility companies that provide electricity to the Internet."[96] The majority declined to go down the slippery slope.

In *Perfect 10 v. Visa Int'l Service Ass'n*, the majority held that Perfect 10 had failed to allege "affirmative steps taken to foster infringement" required for a finding of contributory liability on an inducement theory.[97] Visa payment services promoted itself to companies that had substantial non-infringing uses. Merely providing the service did not automatically mean that Visa also promoted every product with which its cards or payment service were used. Without a "clear expression" or "affirmative acts" of a specific intent to foster infringement, Visa could not be contributorily liable under the inducement test.[98]

II. *SoriBada 5*

To follow the terms of the settlement, SoriBada entered into negotiations with Korean Association of Phonogram Producers (KAPP), Federation of Korea Art Performers' Organization (FKAPO), Korean Music Copyrights Association (KOMCA), and other related groups. SoriBada also agreed to change its free services to a paid service. The company entered into contracts with various members of the above mentioned organizations for licenses.

Simultaneously, SoriBada developed software to resolve the significant concerns about its program's infringing behavior. It adopted a three-stage filtering method to combat the infringement. First, "hash value comparison technology"[99] and "audio fingerprinting technology"[100] worked as a filtering system to keep account of paid shared files, and to block the sharing of files so designated as prohibited by copyright holders. Secondly, SoriBada developed the "Green File"[101] system. Green File worked as an authentication system for files that the filtering technologies could not flesh out. Lastly, "Digital Watermarks"[102] were inserted into the music files in the frames or V2 Tags, so that one could authenticate the files in the future. This program was to be called the SoriBada 5. Finally, on July 10, 2006, SoriBada released SoriBada 5 with the three-stage filtering service, and became the world's first P2P based file-sharing service provider that operated as a subscription Web site.

Although there were some struggles, all appeared initially to end well for both SoriBada and the Korean music industry. However, in August 2006, MIAK sued SoriBada for contributory infringement.[103] The trial court held for SoriBada, but the Court of Appeals overturned the lower court's decision in October 2007.

The SoriBada cases are interesting to consider when analyzing contributory copyright infringement. It is the only Web site that continuously operated using different P2P technologies, changing its system from the Napster to the Grokster-KaZaa method, and finally adopting the filtering system following the guidelines set out by the *Grokster* court. [104] However, even with the adoption of the three-stage filtering system, the Korean court ruled that it was not enough to soundly land on the safe harbor of Korea's online service provider exemption.[105]

MIAK contended that SoriBada 5 was using its central server to be more aggressively involved in file sharing, or in the alternative, SoriBada 5's main function was to aid its subscribers to infringe upon the plaintiffs' rights. They were not sufficient to fall under the exemptions of current Korean Copyright Law Article 102 Section 2.[106]

SoriBada asserted that it had already entered into a settlement agreement with KOMCA,[107] KAPP[108] and other associated organizations under the supervision of the Ministry of Culture and Tourism.[109] SoriBada also argued that the only reason that its program used the central server was to monitor and prevent the infringement by users. Additionally, SoriBada asserted that the self-developed Green File system allowed for 100 percent filtering of non-consented copyrighted files. Implementing these strict filtering systems to SoriBada 5 resulted in a majority of the files being filtered out, thereby blocking users from sharing those files. Consequently, many subscribers asked for refunds, showing their frustration on numerous occasions. SoriBada focused on this outcome of implementation of the Green File system, since it demonstrated intent to battle the infringers. Accordingly, SoriBada contended that it was not aiding or abetting illegal activities. SoriBada further argued that the Korean Copyright Law Article 102 Section 2 precluded it from liability. Article 102 Section 2 is an exemption provision similar to the safe harbor provision in the Digital Millennium Copyright Act, giving defense to online service providers when they try to prevent or prohibit the copying or transferring of copyrighted material, but cannot do so because of technological difficulties. SoriBada reasoned that the "passive filtering method" it had adopted satisfied the protective measures that the P2P service providers were required implement under the Article 102. Therefore, even if the phonogram producers' related rights were infringed, SoriBada should be exempt from the liability. Nevertheless, much to SoriBada's dismay, the Korean Court of Appeals overturned the lower court and held that the passive filtering system was not sufficient. The Court ruled that SoriBada must adopt an *aggressive*[110] filtering system and ordered an injunction.

This case was based on the program that SoriBada distributed for free; however, SoriBada 5 did not directly take part in the infringement process (as its central server was not involved in the process). Furthermore, unlike SoriBada's first, second and third versions, the fifth has filtering technology that mandated the file to go through the SoriBada central server to match and filter the "hash value" database and audio fingerprint database. This process did not make the searching or the transfer process easier for the users; rather, it captured those files that the copyright holder requested to be filtered.

Therefore, the Court concluded that it was hard to say that SoriBada had independently infringed upon the appellants' rights or contributed directly or closely enough to hold SoriBada liable for joint illegal activities. Subsequently, the court looked to see whether SoriBada was liable for aiding and abetting illegal activities. Copyright prohibits activities that aid and abet the infringement of rights to reproduce, which includes reckless or negligent aiding and abetting.[111] Due to the nature of a P2P technology-based system, which allows countless individual users the ability to request and download the requested files simultaneously, there always exists the possibility of copyright infringement. Therefore, the court refused to hold SoriBada strictly liable for aiding and abetting.

"[M]uch to SoriBada's dismay, the Korean Court of Appeals overturned the lower court and held that the passive filtering system was not sufficient."

Thus, the Court applied a four-factor balancing test. The first factor was whether the Web site administrator could be involved in the individual user's file sharing or exchanging when providing the P2P service and, if so, in what method and how much. The second factor was whether the administrator was aware of the copyright infringement and, if so, what method was injected by the administrator into the P2P system to protect the copyright. The third factor was whether the P2P system provided other functions that facilitated the users to infringe on the copyrights. Finally, the fourth factor was whether the administrators wanted to gain profit from the user's copyright infringement and, if so, whether the administrator knowingly facilitated the infringing act. Upon weighing all four factors, the Court concluded that even though SoriBada 5 tried harder to protect the rights of the copyright holders in comparison to previous SoriBada programs, there still remained an inherent limit to the "*passive* filtering method."[112]

As noted above, Korean Copyright Law Article 102[113] provides an exemption for online service providers when users infringe copyrights using an online service, if the online service provider has actual *knowledge* about the infringement, but tried to prevent or discontinue the infringing act. [114] If the service provider aimed to, but was unable to prohibit the infringement because it was "technologically impossible," it would be exempt from all liability.[115]

In order to determine the measures that SoriBada took to prevent the users from directly infringing copyrights, the Court evaluated the technological measures infused to the SoriBada 5 program. The Court concluded that most recent method that SoriBada took could not be reasonably seen as using all technological methods possible, because it was feasible for SoriBada to allow transfers for only those files that were expressly agreed to by the copyright holders. The court labeled this to be an "aggressive filtering method." SoriBada contended that the technology behind P2P conceptually presupposes "passive filtering" to protect copyrights. The files that were transferred in SoriBada 5 could be classified into five different categories: First, copyrighted phonograms that were licensed by SoriBada; second, copyrighted phonograms for which SoriBada could not obtain licenses; third, phonograms that had fallen into the public domain; fourth, User Created Content (UCC), which were files that users created and distributed for their own enjoyment; and fifth, free phonograms that were released by various providers for marketing purposes. SoriBada argued that the aggressive filtering method was overbroad because it would filter the latter three types of files that were not entitled to copyright protection. As a result, the filtering method was excessive and over-restrictive. Furthermore, it would deprive the users who were allowed to reproduce and transfer UCC. Additionally, SoriBada asserted that a P2P service is like its own life form, in the sense that users create a community that thrives on creative input from a variety of different sources as they post and make modifications to their original music and music of others. SoriBada claimed that file sharing in such an environment was important to the process of modifying and nurturing original works.

The Court answered SoriBada's above contentions by stating that although its P2P service allowed the users to directly connect with each other, the argument that the copyright law should provide more protection for the P2P services because of their unique characteristics was not valid. Moreover, the "passive filtering method" was not a presupposed method for P2P service providers. The Court answered the contention that aggressive filtering would not allow the UCC or other copyright-free files from being shared, by stating that it did not seem a burden for SoriBada to come up with a separate section for UCC files, where users were able to waive their rights before uploading their files. Similarly, the Court urged SoriBada to build a separate database for the Copyright Free files (works that fall in the public domain).

The Court found evidence pointing to the fact that the filtering service adopted by SoriBada was not functioning as SoriBada had anticipated. SoriBada contended that it tried its best in many routes. It developed new techniques to prevent copyright infringement, made supply contracts with various phonogram associations of copyright holders (more than 550), and even established its own "SoriBada copyright protection center." However, the Court concluded that not enough evidence was produced to support the supply contract argument, and pointed out that the "SoriBada Copyright protection center" had not produced any meaningful results for the protection of rights holders.

II. Applying *Sony*, *Grokster*, and *Perfect 10* to *SoriBada 5*

To apply the *Sony* doctrine to the facts of *SoriBada 5*, one must look to see whether SoriBada 5 is capable of commercially significant non-infringing uses. Under the Ninth Circuit's approach, the focus would be on the capability of substantial non-infringing uses. P2P technology is a computer networking concept involving individual computers communicating over the Internet on custom networks that route search requests and conduct direct file transfers among the network's users. This technology is used to share all kinds of files, not only copyrighted materials, but can also be used to share pictures, news articles, or even individual video clips. The potential benefits of having this technology have been proven over the years by actual users. However, under the Seventh Circuit approach, the *Sony* doctrine applies a balancing test when a technology shows both infringing and non-infringing uses.[116] Additionally, the willful blindness is considered as actual knowledge in copyright law.[117] SoriBada 5 would not be held liable under both approaches of the *Sony* doctrine because SoriBada knew of the potential infringing activities and tried to prevent it by adopting a filtering system. Although it had actual knowledge of the infringement by the users, it entered into contracts with the copyright holders and adopted technology to prohibit infringing activities. Therefore, it is likely that under *Sony*, SoriBada 5 would be free from liability.

Similarly, under *Grokster*'s inducement theory, SoriBada 5 is also not likely to be found liable. In analyzing Grokster's conduct, the Court focused on the defendants' failure to implement any steps to filter out copyrighted material.[118] While the Court stated in a footnote that such design flaws would not constitute a basis for liability in establishing a minimal level of intent,[119] it certainly presented an argument that a product's design can be held relevant to intent. Another factor to consider is that the Court looked at Grokster's past activities, such as advertising to post-Napster consumers, to find a probability of inducement. In *SoriBada 5*, the defendant would not be liable under an inducement theory because there is no "clear expression or other affirmative steps" to infringe.[120] Rather, there is ample evidence to support that its internal business and external customer communications were adverse to infringement. The advertising factor does not apply to SoriBada 5 because its user base had existed since SoriBada 1, when it was using Napster-like architecture, meaning that SoriBada had stable, loyal customers and did not need to solicit or advertise to a new group of users for business.

Furthermore, when applying the *Perfect 10* contributory infringement rule, SoriBada 5 must have had knowledge of another's infringement and either materially contributed or induced that infringement. SoriBada could be held liable if it had knowledge that infringing music files were available using its program, and it failed to take simple measures to prevent further damages to the copyright holders. SoriBada had knowledge that there were infringing music files on its systems, but it tried to prevent damages by using its filtering system.

On its face, it seems that applying all the different rules leads to the same conclusion that SoriBada 5 should be free from liability. However, the Korean court ruled that SoriBada was liable because it did not adopt the aggressive filtering system, meaning that only those files that are consented to can be shared.[121] This decision can be criticized because it requires SoriBada to change its business model completely from a P2P file-sharing system to something similar to iTunes, where only the consented files may be shared. It is likely that the Court ruled the way it did because SoriBada runs a dual system, with both paid and free services. To download a song that is protected by copyright, a user must register for the paid service. Yet the user may sometimes find the same song on the free service. Due to the nature of P2P file sharing, SoriBada does not have control over its users. Therefore, if users try to upload copyrighted files, they may do so by giving different but similar file names and by mixing songs into different formats, resulting in a sufficient amount of files inevitably escaping the filtering system. This would provide to free users the same files available to those who paid for the service. Although the "hash value" comparison method and audio fingerprinting did filter out a majority of infringing files, the real problem emerged from files that were intentionally designed to avoid specific filtering methods.

Recognizing these problems, should the Korean court have ruled the way it did to fix them? How would the Court rule in a situation where a cyber-Robin Hood releases a file-sharing program for non-profit purposes without any protection measures or filters? The majority of piracies are performed using BitTorrent technology, an open source. BitTorrent is widely used to illegally download movies, music, software, games, comics and much more. It is nearly impossible to regulate BitTorrent because of its revolutionary new way to share files online; anyone can create and distribute it. Therefore, it is hard to trace who has downloaded what file, as the file is compiled from multiple users simultaneously. Even if copyright holders close down individual Web sites that use the interface, it does not matter, because one can go elsewhere.

There has been no case in the U.S. regarding P2P liability since *Grokster*. Therefore, it is worth considering how a U.S. court would rule in a case like *SoriBada 5*, where the defendant adopted measures to prevent infringements, and did not induce or materially contribute to infringing activities.

III. Conclusion

The explosion of the Internet and simultaneous proliferation of P2P technologies in recent years pressed the doctrine of contributory copyright infringement to its limit. While *Sony*'s contributory standard of "capable of noninfringing uses" appeared to be an unambiguous guidance in the era of the VTR, it proved to be somewhat vague when applied to new technologies like P2P software. The limitation of the *Sony* doctrine resulted in significant ruptures between the federal circuits over the scope of contributory copyright liability; it was likely this inter-circuit split that motivated the Supreme Court to step into the fray in 2005, in *Grokster, Ltd.*

While the *Sony* standard did indeed survive the *Grokster* holding, and will certainly continue to govern contributory copyright liability, the lower courts must now factor in additional considerations of an inventor's "intent" or "purpose" in distributing a new technological product. While it appears that this "inducement theory" is intended to supplement the *Sony* considerations without contradicting them, it remains to be seen how the lower courts will incorporate new questions of "intent" into the *Sony* analysis.

The *SoriBada 5* court focused on the level of protective measures inserted in the P2P software, in conjunction with involvement and control, intent, knowledge, and facilitation factors. These factors are comparable to material contribution, inducement, and contributory infringement theories. Precaution guidelines set out by *Grokster* seemed to be clear, but *SoriBada 5*'s outcome spurs confusion in the international arena as to the intensity of protection that service providers must take.

Regardless of how *Grokster* is applied by the U.S. courts in the years to come, questions over the proper balance between copyright protection and technological innovation will persist. Trying to balance these two is an ongoing challenge.

Endnotes

1. "Sori," directly translated into English, means "Sound."
2. "Bada," directly translated into English, means "Ocean."
3. In 2000, the total population of South Korea was approximately 46 million (estimated), according to the Korea National Statistical Office. In addition, according to the Korean Ministry of Information & Communication, there were approximately 7.8 million individual users subscribing to broadband Internet access (known as high-speed Internet access) in 2001. In 2005, approximately 12.2 million users subscribed to broadband Internet access. http://www.nso.go.kr/ (last visited on Nov. 18, 2007).
4. This is a direct translation of Korean terminology. This is similar to the copyrights and the related rights in the U.S.
5. 서울중앙지방법원 2001 고단 8336. *Available at* Korean Supreme Court Web site, http://www.scourt.go.kr.
6. Preliminary Injunction.
7. *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004 (9th Cir. 2001).
8. *In re Aimster Copyright Litigation*, 334 F.3e 643 (7th Cir. 2003).
9. *MGM Studios Inc. v. Grokster*, 125 S. Ct. 2764 (2005).
10. *Id.*
11. iTunes is a digital media player application, introduced by Apple for playing and organizing digital music and video files.
12. YouTube is a video-sharing Web site where a user may view, search and upload video clips.

13. BitTorrent is a P2P file-sharing communications protocol. BitTorrent allows for the copying and distribution of large files. To use the BitTorrent network, users download and install a small program, which is the BitTorrent client application. The client is the user's interface during the downloading process. The BitTorrent client does not have the ability to search for files. Users visit torrent sites, which are Web sites that contain an index of available files on the network. The Web site hosts and distributes small files known as torrents. Torrents do not hold copies of the program, but instead automatically and invisibly instruct a user's computer where to go and how to get the desired file. After the user downloads the file, the user has a perfect digital copy that can be viewed, burned to a portable media like a DVD, or copied by and distributed to another user.
14. U.S. Copyright Act of 1976, 17 U.S.C. §§ 100-1332 (2000 & Supp. II 2002).
15. *Id.* § 106.
16. *Id.* § 501.
17. Copyright law has come to recognize two separate theories of liability when a copyright is infringed by a third party other than the defendant: contributory and vicarious liability. The lines between the two theories can sometimes blur. *See Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 435 n.17 (1984). However, there remain clear distinctions. Vicarious liability derives from agency principles of *respondeat superior*, or "look to the higher up." *See Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 261-62 (9th Cir. 1996). Such liability is typically imposed in copyright law where a manager, the classic "dance hall operator," exercises both a high level of control over the infringement and is likely to benefit financially from the infringement. *Id. Sony*, and, more recently, *Grokster*, focused almost exclusively on the concept of contributory copyright liability, with nary a mention of vicarious copyright liability. *See, e.g.*, *MGM Studios Inc. v. Grokster, Ltd.*, 125 S. Ct. 2764, 2776 n.9 (2005) (declining to base its opinion on a vicarious infringement theory, and stating that "[b]ecause we resolve the case based on an inducement theory, there is no need to analyze separately MGM's vicarious liability theory").
18. Brandon Francavillo, *Pretzel Logic: The Ninth Circuit's Approach to Contributory Copyright Infringement Mandates that the Supreme Court Revisit Sony*, 53 Cath. U. L. Rev. 855, 861 (2004).
19. *Gershwin*, 443 F.2d 1159 (2d Cir. 1971).
20. *Id.* at 1160.
21. *Id.* at 1162.
22. *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 421-22 (1984).
23. Video Tape Recorder.
24. *Id.* at 420.
25. *Id.*
26. *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 437 (1984).
27. U.S. Patent Act, 35 U.S.C. §271(c) (2000).
28. *Sony*, 464 U.S. at 440-41.
29. *Sony*, 464 U.S. at 442.
30. *Id.*
31. *UMG Recordings, Inc. v. MP3.Com, Inc.*, 92 F. Supp. 2d 349 (S.D.N.Y. 2000).
32. *Id.*
33. *Id.*
34. *Id.*
35. *Napster*, 239 F.3d at 1019.
36. *Id.*
37. *Id.*
38. *Id.* (citing *Gershwin Publ'g Corp. v. Columbia Artists Mgmt.*, 443 F.2d 1159, 1162 (2d Cir. 1971)).
39. *Id.* at 1020.
40. *Id.* at 1022.
41. 2000.11626. *Available at* http://scourt.go.kr.
42. Roxio was the company that bought the rights to the name.
43. SoriBada 2 was released right after the decision; however, shortly thereafter it upgraded the software to SoriBada 3, which used the same mechanism as Grokster.
44. *See infra* page 12.
45. *Aimster*, 334 F.3d 643 (7th Cir. 2003), *cert. denied*, 540 U.S. 1107 (2004).
46. AOL Instant Messenger was released in May 1997 and currently is the most popular instant-message program in the United States.
47. For example, music and film files.
48. For example, e-mails and personal photos.
49. *Aimster*, 334 F.3d 643, 645.
50. *Id.* at 646–47.
51. *Id.* at 645–46.
52. *Id.*
53. *Id.* at 647.
54. *Id.* at 649.
55. *Id.* at 651 ("We also do not buy Aimster's argument that . . . all Aimster has to show in order to escape liability for contributory infringement is that its file-sharing system could be used in non-infringing ways, which arguably it could be.").
56. *Id.* at 651-53.
57. *Id.* at 648.
58. *Id.* at 652.
59. *Id.* at 651.
60. *Id.*
61. *Id.* at 655.
62. *Id.* at 653.
63. *Aimster*, 334 F.3d at 655.
64. Technological performance such as data processing speed or a modern computer that has high-speed Internet connection.
65. These computers, which are used as connecting points, are called Super-nodes or Super-peers.
66. FastTrack, compatible with Gnutella technology.
67. Morpheus, relying on Gnutella technology.
68. *Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd.*, 545 U.S. 913 (2005).
69. *Id.* at 921.
70. *Id.* at 928.
71. *Id.* at 940.
72. *Id.* at 926.
73. *Id.* at 934.
74. *Id.* at 937.
75. *Id.* at 926.
76. *Id.* at 925.
77. *Id.* at 939.
78. *Id.* at 937.

79. An organization that is permitted as a Trust Executor for the Phonogram producers' copyright and related rights.

80. http://www.perfect10.com

81. *Perfect 10, Inc. v. Visa Int'l Service Ass'n*., 494 F.3d 788 (9th Cir. 2007).

82. *Perfect 10, Inc. v. CCBill LLC*, 488 F.3d 1102 (9th Cir. 2007).

83. *Perfect 10 v. Amazon.com, Inc.*, 487 F.3d 701 (9th Cir. 2007).

84. *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259 (9th Cir. 1996).

85. *Napster*, 239 F.3d 1004 (9th Cir. 2001).

86. *Perfect 10 v. Amazon.com, Inc.*, 487 F.3d 701.

87. *Id.* at 729.

88. *Perfect 10 v. Visa Int'l Service Ass'n*, 494 F.3d 788, 798.

89. *Id.*

90. *Id.*

91. *Id.* at 799.

92. *Id.* at 798.

93. *Id.* at fn. 8.

94. *Id.* at 811.

95. *Id.* at fn 9.

96. *Id.* at 800.

97. *Id.* at 801.

98. *Id.*

99. The targeted music file is called a "hash function" (type of a computer encrypting technique), or message -digest function. It creates "hash values" by giving pseudorandom numbers that have fixed digits and applying it to "hash" function. These "hash values" are accumulated in the SoriBada server, building a "hash value" database. When a user requests to download a music file, then this technology allows the comparison of the "hash values" of the requested music files and the "hash values" that are stored in the "hash value" database. If they are the same, then it permits the download.

100. The music files that are shared in P2P programs could include the original file that the recording company released; however, it is more likely that the individual users create secondary files from their own CDs, media, or the Internet. As this is prevalent, continuing to recognize the variation files and comparing the "hash values" to the database has limits. Therefore, SoriBada has a separate music recognition database with audio fingerprint, and it filters files that have passed the "hash value" comparison phase. If the music file is filtered out in this stage, the "hash value" is created for this file, and the same would be saved in the "hash value" database. Later, this music file would be filtered out at the initial "hash value" comparison stage.

101. The "Green File" system was developed by SoriBada to filter unlicensed music files. The producers or copyright holders can join as SoriBada members and register those files that they do not want to be shared as Green files.

102. Digital watermark technology is used to protect the rights of the owner of digital contents. An ID, or information code or symbol, is inserted into the digital contents, which allows owners to identify the distribution channels; however, this technology alone cannot function to prohibit illegal file sharing.

103. *Producers v. SoriBada Co.*, 서울고등법원 2006 라 1245. *Available at* http://scourt.go.kr.

104. *MGM Studios Inc. v. Grokster, Ltd.*, 125 S. Ct. 2764 (2005).

105. Korean Copyright Law Article 102 Section 2. This section gives exemptions to online service providers if they try to prevent or prohibit the copying or transferring of a copyrighted material, but could not because of technological difficulties.

106. *See supra* note 106.

107. Korea Music Copyright Association (KOMCA), http://www.komca.or.kr/.

108. Korea Association of Phonogram Producers (KAPP), http://www.kapp.or.kr/.

109. This case became very controversial in Korea, and the Korean government stepped in to direct and supervise the settlement process.

110. Unlike the filtering system SoriBada 5 adopted, the aggressive filtering system requires SoriBada to share only the files that have already been consented to by the copyright holders.

111. Korean Civil Law Article 760.

112. *SoriBada Co.*, 서울고등법원 2006 라 1245.

113. This section is analogous to the safe harbor provisions in the DMCA.

114. Korean Copyright, Article 102 Section 1.

115. Korean Copyright, Article 102 Section 2.

116. *Aimster*, 334 F.3d at 649.

117. *Id.* at 650.

118. *Grokster*, 125 S. Ct. at 2781.

119. *Id.*

120. *Id.* at 2770.

121. *SoriBada Co.*, 서울고등법원 2006 라 1245.

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The author owes a tremendous amount of gratitude to Professor Rena C. Seplowitz for her inspirational teaching, guidance and support on this article. Many thanks as well to Professor Ilene H. Barshay for her encouragement and incredible lessons on "writing good." I am grateful, also, to Han Sheng Beh for his insightful comments and for always trying to poke holes in my arguments. Finally, a special thank you to my parents for their unending love and support.

Re-examining Employee Assignment Agreements in Light of the *Bratz* Case

By Michael R. Graif

The recent case between Mattel Inc. (Mattel) and one of its biggest competitors, MGA Entertainment, Inc. (MGA) over the ownership rights to Bratz dolls has prompted more than a few employers to dust off their "standard" employment agreements and take a second look at the invention assignment language in those agreements. Mattel's agreement withstood various legal challenges by its former employee Carter Bryant (Bryant), and ultimately paved the way to Mattel's securing of a $100 million jury verdict against MGA. Yet was that agreement absolutely necessary? In other words, would the law still have given Mattel the rights that the jury ultimately found that Mattel owned, even in the absence of an assignment agreement? Since the Intellectual Property rights in the Bratz doll were found to consist primarily of copyrights in sketches and trade secrets, the answer is arguably yes.

The saga between Mattel and one of its biggest competitors, MGA, began in April 2004, when Mattel filed suit against Bryant, a designer formerly employed by Mattel. The lawsuit alleged that Bryant developed the idea for MGA's Bratz doll, intended to be a more fashionable and edgier version of Mattel's Barbie, when he was employed by Mattel in 1999. MGA intervened in the lawsuit to protect its Intellectual Property rights in December 2004.

One of the issues at the heart of the case was the enforceability of an Employee Confidential Information and Inventions Agreement (the Inventions Agreement) that Bryant signed with Mattel in 1999. Pursuant to the agreement, Bryant assigned to Mattel "inventions . . . conceived or reduced to practice by [Bryant] (alone or jointly by others) at any time during [his] employment by the Company." The assignment included "all [his] right, title and interest in such inventions, and all [his] right, title and interest in any patents, copyrights, patent applications and copyright applications based thereon." The court upheld the Inventions Agreement, ruling, among other things, that the Inventions Agreement was not substantively unconscionable and that it applied to any Bratz-related "inventions" that Bryant created during his employment with Mattel. Based on that holding, the jury in the case ultimately awarded Mattel millions in damages for copyright infringement and other claims related to the Bratz creations.

Once the Inventions Agreement was found to be enforceable, it was of course of great assistance to Mattel in persuading a jury that Mattel owned the Bratz designs, even though U.S. copyright law already deems an employee's works of authorship to be owned by the employer as a "work made for hire."[1] The works are considered for hire if they are prepared within the scope of employment, which was the same issue being decided in the Bratz case with respect to the Inventions Agreement.

The reason that companies include invention assignment language in employment agreements as a matter of course is because, unlike the automatic ownership provisions in the Copyright Act, there is no corresponding provision in the Patent Act giving the employer ownership of its employees' patentable inventions. In the Bratz case, however, since the doll was based on copyrightable sketches, Mattel would arguably have had the same rights to the doll design sketches even in the absence of an assignment agreement that included the term "copyrights."

Furthermore, even if the work at issue is an idea or invention that is excluded from copyright protection,[2] an employee still may be prevented from using the ideas or inventions developed at his former employer if they were maintained as trade secrets. The common law still applies to obligate an employee to maintain the confidentiality of his former employer's trade secrets.

In *PAZ Systems, Inc. v. The Dakota Group Corp., Edward Owsinski and Robert Walsh,*[3] the defendant ran day-to-day operations at PAZ Systems, a manufacturer and seller of retail wall systems, for 18 years. He resigned from his position in 2005 and took PAZ Systems' trade secrets to The Dakota Group, a company which he co-founded. Two months after the resignation, the owner of PAZ Systems learned that the defendant was using PAZ data at The Dakota Group. PAZ Systems brought a suit for, *inter alia*, misappropriation of trade secrets. In opposing the claim, the defendants argued that there was no employment agreement between PAZ Systems and Owsinski. The court held, however, that the lack of an employment agreement does not give an employee the right to misappropriate his employer's protected information.

Significantly, the court stated that "even in the absence of an express provision prohibiting the disclosure of such information, an employee privy to confidential information has a common law duty of good faith and fair dealing to his or her employer preventing disclosure to third parties." By analogy once again, because the Bratz designs were maintained as trade secrets prior to their launch by MGA, Carter Bryant and MGA arguably would still have been found to be liable under that theory even if Bryant did not have an invention assignment agreement. Trade secret law, however, goes only so far to protect employers with respect to patentable inventions; if the purloined invention was not maintained as a trade secret by the employer, then the employer will have no right to prevent the employee's or its competitor's subsequent patenting or use.

The Employment Agreement as a Pre-Invention Assignment Contract

What guidelines should an employer follow when drafting invention-assignment language in an employment agreement? Unlike the patent assignments that are typically submitted in connection with a patent application, an employment agreement with invention-assignment language is by definition a "pre-invention" assignment contract. As a pre-invention assignment cedes to an employer as-yet-undeveloped inventions, special rules apply and must be followed.

In *Freedom Wireless, Inc. v. Boston Communications Group, Inc.*,[4] Freedom Wireless sued Boston Communications for patent infringement. Boston Communications filed a motion for summary judgment, alleging that Freedom Wireless was not the owner of the two patents at issue and therefore lacked standing to sue for infringement. The invention was designed and created by two employees of a non party space technology company, who purported to assign it to Freedom Wireless's predecessor. In connection with their employment at the space technology company, the two employees had signed an employment agreement in which the employees agreed that "all inventions . . . in the Company's methods for conducting business conceived or made by the employee during his employment would belong to the [space technology] company." Boston Communications argued that that agreement conveyed to the space technology company an expectant interest in the employees' invention, which vested as a matter of law into full legal ownership at the moment they first conceived of his invention. Consequently, Boston Communications asserted, the space technology company was the owner of the patents at issue and the employees' subsequent attempt to assign the invention to Freedom Wireless's predecessor company was a legal nullity.

The court held, however, that there had been no assignment from the employees to the space technology company because: 1) the invention was not related to the company's method of conducting business (it related to prepaid wireless billing, which was unrelated to space technology); and 2) there was no present assignment of invention in the contract. The court stated that "in order for a pre-invention assignment contract to create a present assignment of an expectant interest in an invention that automatically vests by operation of law into an actual assignment upon conception, the contract must contain words of present conveyance and must require no further act once an invention comes into being." For example, the agreement must state that the inventor "agrees to grant and *does hereby grant* . . . the full and entire right, title . . ." or inventor "agrees to assign, *and hereby does assign* . . . all my rights to invention." As that or similar language was absent from the employment contract, the court ruled that the subsequent assignment from the space technology company's employees to Freedom Wireless's predecessor company was valid, and thus Freedom Wireless had standing to sue for infringement.

Intellectual Property Assignment Provisions Should Extend to "Conception"

Employers seeking to make assignment provisions as broad as possible should consider including all inventions "conceived" in the scope of employment. In *Genzyme Corporation v. Charles Bishop, Keith Crawford, Eric Messner, Proventiv Therapeutics LLC and Cytochroma, Inc.*,[5] Genzyme acquired Bone Care International, a company specializing in Vitamin D products, in 2005. The three defendants worked for Bone Care and signed employment agreements in 2005 that contained non-compete and Intellectual Property clauses, which provided, in part, that the employee would assign to Bone Care inventions which he "may conceive or first actually reduce to practice while in the employ of the company." Later in 2005, all three defendants left Bone Care to form Proventiv Therapeutics LLC, and then later sold the new company to Cytochroma. Cytochroma purchased Proventiv in part for it patent applications covering new uses of Vitamin D. Genzyme sued for, among other things, breach of contract regarding the Intellectual Property rights provision, because it was alleged that the defendants had applied for patents related to Vitamin D products that were based on inventions / improvements / discoveries made by the defendants while they were employed at Genzyme. The defendants moved to dismiss the case and, in doing so, argued that the Intellectual Property rights provision should be invalid because it was overbroad and unreasonable. The court held that the provision was not overbroad because it did not require the defendants to assign rights to inventions conceived during subsequent employment or for an unlimited period of time. Although the case eventually settled out of court, it validated the use in assignment agreements of the term "conceived"—a term of art—as opposed to the more common, but less specific, terms "created" or "developed."

State Employment Law Governs Ownership of Patentable Inventions

In the absence of a written assignment, state employment law determines the extent of an employer's rights in an invention. State courts will generally look to two criteria in determining whether to imply an assignment contract, namely whether 1) the employer was "hired to invent" and the invention falls within the technical area for which the employee was hired; or 2) whether, depending on the authority of the inventor in the company, that inventor had a fiduciary duty not to compete with the company by usurping a corporate opportunity (i.e., or an invention that relates to the company's business).

In *Access Cardiosystems, Inc. v. Randall Fincke,*[6] Access developed and marketed a portable AED. Fincke was one of Access's founders and stockholders and a former Access director and officer. Fincke started developing new defibrillation technology prior to the formation of Access and then, through the help of others, formed the company. Fincke then filed patent applications and named himself as sole inventor. No agreement was signed between the company and Fincke regarding the use of the Intellectual Property. Fincke subsequently left the company and sent a letter to it stating that the Intellectual Property belonged to Fincke, and that the company must "cease and desist using proprietary and confidential know-how that Fincke disclosed to Access for purposes of manufacturing and distributing products" covered by the patents in dispute. The court found that Fincke did *legally* own the Intellectual Property, but the issue was the question of the equitable ownership. As companies cannot apply for patents in their own names, in the absence of an executed assignment, equitable principles may oblige a named inventor to transfer ownership of his rights in a patent to another entity. The court found that even though the relationship between Access and Fincke was not a true employee-employer relationship, Fincke acted as a promoter to the company. The court went on to say that a promoter stands in a fiduciary relationship to the company which he promotes, and is charged with the duties imposed by good faith, when dealing with the corporation.

When promoters engage in self-dealing vis-à-vis the corporation, "they will not be permitted to benefit by any secret profit which they may receive at the expense of the corporation or of its members." It held that as a promoter, director and officer of Access from its incorporation, Fincke owed fiduciary duties of care and loyalty to the company which began prior to incorporation, during the development of the Intellectual Property. The Intellectual Property clearly represented an essential opportunity for the corporation, since Access's sole purpose was to exploit the resulting inventions. The court required Fincke to assign all rights in a pending patent application to the corporation.

Even for patentable inventions that are not secret, most states give an employer at least a non-exclusive license, also known as a "shop right," to use an invention that was developed using the employer's tools.

Conclusion

It is naturally recommended for an employer to have employees sign "invention assignment" agreements. Yet even in the absence of such an agreement, all is not necessarily lost, as the employer enjoys automatic legal ownership under the Copyright Act of an employee's copyrightable works prepared within the scope of employment, in addition to the rights to inventions that the employer maintained as trade secrets—the two forms of protection that were primarily at issue in the Bratz case. To be most accurate, then, an employment agreement should contain present-day assignment provisions for future patentable inventions that are conceived within the scope of employment,[7] and acknowledgment of ownership provisions for trade secrets and copyrightable works prepared within the scope of employment.

Endnotes

1. 17 U.S.C. § 101.
2. 17 U.S.C. § 102(b).
3. 514 F.Supp.2d 402 (E.D.N.Y. 2007).
4. 220 F.Supp.2d 16 (D. Mass 2002).
5. 463 F.Supp.2d 946, (W.D. Wis., 2006).
6. 340 B.R. 127 (Bkrtcy.D.Mass. 2006).
7. Certain states, including California, have labor codes that restrict the breadth of invention-assignment provisions for employees. In such cases, it is recommended that, as Mattel did, the specific statute be mentioned in the invention assignment agreement, and the agreement expressly limit the scope of the assignment to the extent required by the statute.

Michael Graif, Partner at Curtis, Mallet-Prevost, Colt & Mosle LLP, has a practice spanning a broad range of Intellectual Property and information technology matters, including licensing, enforcement, technology transactions, and copyright and trademark counseling. Mr. Graif has extensive experience preparing and negotiating licensing, development and joint venture agreements relating to copyrights, software, know-how, trademarks and other technology. In addition, he is routinely involved in advising clients on the Intellectual Property aspects of business transactions, including mergers and acquisitions, securitizations, loans, securities offerings and other investments. He has appeared on television and has been quoted in the national and international media on digital copyright issues.

Mr. Graif gratefully acknowleges the assistance of Veronique Hodeau in preparing this article.

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ISSN 1090-8730 (print) ISSN 1933-8546 (online)

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