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Entertainment, Arts and Sports Law Journal

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

Remarks from the Chair

The year 2003 picked up right where 2002 left off for the Entertainment, Arts and Sports Law Section with a fabulous Annual Meeting. Thanks to the hard work of **Kenny Nick** and **Ayala Deutsch**, we hosted a program entitled "Practicing in the Gray Areas of Intellectual Property Law: Creative Resolutions to Protecting Your Digital Rights."

In addition to keynote speaker **Bernard Sorkin**, Senior Counsel of AOL Time Warner, our members were treated to the various perspectives of **George Cooke** of Home Box Office; **Jonathan Frankel** of Swidler Berlin Shereff Friedman; **Jeffrey Johnson** of Pryor Cashman Sherman & Flynn; **Michael Mellis** of Major League Baseball Advanced Media; and **Peter Smith** of Hogan & Hartson. Indeed, the timeliness of their discussion and the need for adequate protections on digital media could not have been underscored more by the fact that less than 24 hours after the Annual Meeting program, *The New York Times* ran an article on the front page of its Business Section revealing that Major League Baseball intends to experiment with the Internet distribution of live video from its games this summer.

For our members who were unable to attend, we are pleased once again to offer a transcript of our Annual Meeting in this edition.

Our Friday program was not our only event at this year's Annual Meeting. We accepted the Intellectual

Inside

NYSBA

Property Law Section's invitation to co-host its afternoon program earlier that week, in which **Jay Flemma** took a lead role by organizing two panels. The first was a review of the law and policy of the Supreme Court's decision in *Eldred v. Ashcroft*,[1] moderated by **Jay Kogan**, Chair of our Literary Works and Related Rights Committee. The second was a discussion of the ramifications of the recent district court decision in the Tiger Woods case against sports artist Rick Rush, concerning Woods' rights of publicity and privacy.

We also co-sponsored a panel discussion and cocktail reception geared toward introducing young lawyers to the industry, and provided career advice to those aspiring to make a career in entertainment, arts or sports law. My predecessor, **Judith Bresler**, spoke on that panel, which was a huge success. Our Section is committed to the career development of newer attorneys, and we hope that those of you who are looking to gain experience will take advantage of our various programs, receptions and other opportunities to gain connections, knowledge and experience, such as at our VLA clinics.

By the time you will have read this, our spring conference—scheduled for March 28-29 at Doral Arrowwood Resort in Rye Brook, New York—will have passed so I will wait until the next issue to provide a report on that. However, as I write this column, I would be remiss if I did not express my excitement about the conference and my appreciation for the efforts of Jay Flemma and Kenny Nick in putting together what is shaping up to be a true blockbuster event.

I want to welcome a new member to our Executive Committee and congratulate a current member on her new position. First, our newest member is our CLE Chair, **Cameron Myler**. Cameron, a four-time U.S. Winter Olympian, not only plans to assist our Section in ensuring that our members receive CLE credit for as many of our programs as possible, but is also looking forward to working with Ayala, who is Chair of the Committee on Sports, to host programs of interest to members who practice in that field. Incidentally, as you may notice from the prior sentence, we have renamed the Committee on Professional Sports to reflect the fact that many of our members practice in, and many of our programs relate to, fields other than professional sports.

Rosemarie Tully, a member of our Executive Committee from the 10th District for the past several years, has succeeded Elisabeth Wolfe as Membership Chair. Elisabeth has made great strides over the past year in reaching out to members of the bar, educating them on the benefits our Section offers and, as a result, growing our membership. We look forward to continue growth under Rosemarie's guidance.

With many upcoming events planned—including programs, another VLA clinic and other matters of interest such as the Phil Cowan Memorial Scholarship—members should make it a regular practice to check our Web site, http://www.nyeasl.org, for news and information.

Jeffrey A. Rosenthal

Endnote

1. ___ U.S. ___, 123 S. Ct. 769 (2003).

Editor's Note

This issue of the *Journal* is launching our Law Student Initiative, which is designed to bridge the gap between law students and the entertainment, arts and sports law communities and shed light on students' diverse perspectives in these practice areas. We were very fortunate to have received quite a number of quality submissions, and have selected two authors as our first published winners. Christopher Abbott, a second-year law student at St. John's University School of Law, writes about LeBron James' failed quest to enter the NBA draft prior to graduating from high school. Damien Granderson, a third-year law student at Albany Law School of Union University, has submitted an article about defining artists' rights. As a result of their high-quality submissions, both of these authors will receive a free membership to the EASL Section next year, and an opportunity to reach out to EASL Section members with their talent.

This issue of the *Journal* also features what has become an annual tradition, the publication of the transcript from the EASL Section's Annual Meeting that took place in January, for those of you who were unable to attend, or who would like to refresh your notes as to what was discussed.

This *Journal* contains several articles that may assist practitioners. For example, we have an analysis of the new German Copyright Act, and how the changes may affect U.S. copyright attorneys. There is also an article about the need for specificity when drafting contracts for entertainment industry clients, and a "what to do" guide for practitioners who represent celebrity clients who do or say things that engender unfavorable media attention. There is also an interesting submission about protective orders and confidentiality when filing legal briefs.

We are also fortunate to have submissions by attorneys who were involved with trying and winning the cases about which they write. The first involves an interpretation by the Second Circuit on behalf of creators of copyrighted works, involving termination rights, contractual agreements and works for hire. The second concerns J.K. Rowling and Scholastic, Inc. in their defense of the Harry Potter books against an author who fabricated evidence in an attempt to prove claims of copyright and trademark infringement.

As you will see from Elisabeth's Pro Bono Update, the Pro Bono Committee has been very active. We had our second clinic with VLA on February 12th, which was a great success. Elisabeth will be sending Pro Bono Updates via e-mail to all EASL Section members during the course of the year, which will outline the involvements of the Committee and how each member can participate. We also have an article featuring VLA's programs, as an informational resource for EASL Section members.

Finally, please be advised that **authors can now get CLE credit from having an article published in the *EASL Journal*.** To submit an article or letter to the Editor, please contact me at ehecker@harryfox.com. **The next deadline is Friday, May 30, 2003.**

Elissa

Elissa D. Hecker is Associate Counsel to The Harry Fox Agency, Inc., licensing affiliate of The National Music Publishers' Association, Inc., where she is involved with legal, educational and policy matters concerning the world's largest music rights organization and the U.S. music publishing industry trade group. Ms. Hecker is the Vice-Chair of the EASL Section. In addition to her membership in the NYSBA, Ms. Hecker is also a member of The Copyright Society of the U.S.A. and Chair of the FACE Initiative children's Web site.

Get CLE Credit!
Next _EASL Journal_ Deadline:
Friday, May 30, 2003

Congratulations to the Law Student Initiative Selected Authors

Christopher B. Abbott

of St. John's University School of Law, for
"Junior Prom or NBA?
A Legal Analysis of LeBron James' Failed Quest to Enter the NBA Draft Prior to Graduating from High School"

and

Damien Granderson

of Albany Law School of Union University, for
"Defining Artists' Rights and Alternatives:
Ownership of the Creative Message"

EASL Section Law Student Initiative

EASL has launched an initiative that gives law students a chance to publish articles in a special section that will appear in the *EASL Journal* and on our Web site at www.nyeasl.org.

The Initiative is designed to bridge the gap between students and the entertainment, arts and sports law communities and shed light on students' diverse perspectives in these practice areas. Free membership to the EASL Section for the following year will be offered to those students whose articles are accepted for publication.

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 the *Journal* and the Web site have wide distribution, as the EASL Section boasts almost 2,000 members nationwide.

Law school students who have interest in entertainment, arts and/or sports law and who are members of the NYSBA are invited to submit articles. To submit an article, contact Elissa Hecker at ehecker@harryfox.com.

The Phil Cowan Memorial Scholarship

EASL is pleased to announce that The New York Bar Foundation has approved the creation of a restricted fund for contributions to The Phil Cowan Memorial Scholarship. The Scholarship of $2,500 will be awarded on an annual basis in Phil Cowan's memory to a law student who is committed to the practice concentrating in one or more of the fields of entertainment, art or sports law.

Eligible Recipients. The recipient of the $2,500 Scholarship will be selected each year through a writing competition. The writing competition is open to all first- and second-year law students who are members in good standing of the EASL Section and who attend a law school anywhere in New York State, Rutgers University Law School (Newark and Camden campuses) or Seton Hall Law School.

The Competition. Each Scholarship candidate must write an original paper on a legal issue of current interest in the area of entertainment, art or sports law. The paper should be twelve to fifteen pages in length, double-spaced and including footnotes, in *Bluebook* form. The 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 the EASL's Phil Cowan Memorial Scholarship Committee. The Committee will read the submitted papers and will make the ultimate decision as to the Scholarship recipient.

Deadlines. All students must submit their papers to their respective law schools for consideration not later than by April 30 of each year. The screening faculty at each respective law school must submit the top three papers to the EASL's Scholarship Committee by June 1 of such year. The Scholarship Committee will determine the winner by October 31, and the winner will be announced, and the Scholarship awarded, at the Annual Meeting, which will take place the following January.

The Scholarship Committee and Prerogatives. The Scholarship Committee is composed of all former Chairs and the current Chair of the EASL Section. Each winning paper will be published in the *EASL Journal* and will be made available to EASL members on the EASL Web site. 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 *not* to award a Scholarship if it determines, in any given year, that no paper submitted was sufficiently deserving. All rights of dissemination of the papers by EASL are non-exclusive.

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

Donations. The Phil Cowan Memorial Scholarship fund is pleased to accept donations. The donations are tax-deductible. All donations should be by check, and be made payable to **The New York Bar Foundation.** Each donation should indicate that it is designated for the Phil Cowan Memorial Scholarship**. All donations should be forwarded to The New York Bar Foundation, One Elk Street, Albany, New York 12207, *Attention:* Kris O'Brien, Director of Finance.**

Did You Know?

Back issues of the *Entertainment, Arts and Sports Law Journal* (2000-2003) are available on the New York State Bar Association Web site.

(www.nysba.org)

Click on "Sections/Committees/ Entertainment Law Section/ Member Materials/ Entertainment, Arts and Sports Law Journal."

For your convenience there is also a searchable index. To search, click on the Index and then "Edit/ Find on this page."

Note: Back issues are available at no charge to Section members only. You must be logged in as a member to access back issues. For questions, log in help or to obtain your user name and password, e-mail webmaster@nysba.org or call (518) 463-3200.

EASL Annual Meeting Keynote Address

By Bernard Sorkin

The views presented in this article do not necessarily reflect the views of Mr. Sorkin's employer or any other person or entity.

In his 1966 address, "An Unhurried Review of Copyright," Judge (then Professor) Benjamin Kaplan opened by saying, " . . . [I]t is almost obligatory for a speaker to begin by invoking the 'communication revolution' of our time, than to pronounce upon the inadequacies of the present Copyright Act . . ."

Bernard R. Sorkin

That was 1966. We had by that time, and during the succeeding decades, gone through many technological revolutions in the intellectual property area, starting with Herr Gutenberg's bombshell, and continuing with photography, sound recordings and photocopying, cable and satellite transmission and videocassettes.

What we face today, however, hugely overshadows in consequence all that went before. The development of digitalization provides a cornucopia of benefits as well as mammoth dangers. One of the consequences of digitalization has been an outpouring of criticism of legislation enacted to protect against those dangers; criticism not that the Copyright Act is "inadequate," but that it goes too far in providing protection.

It might be well to set the stage by saying a few words about the benefits and dangers.

Digitalization provides new means of distribution, new platforms for the carriage of entertainment and information. New markets are being opened. There are, and will be, new ways for people to obtain, deal with and "play with" entertainment and information; by creating multimedia works and by creating and modifying audio, visual and audio-visual works. And, extremely important, new ways of using information and making it available in education, most significantly for distance learning. Education is no longer confined to the traditional four-wall classroom. Digitalization also eases the storage and accessibility of encyclopedic materials.

That is a wonderfully bright silver lining to the cloud I now describe. The very attributes of digitalization that provide so many advantages to content owners, to everyone—and they are many and varied—connected with the content-owning businesses, and to society at large can, if not adequately dealt with, destroy copyright.

For one thing, there is ease of copying. Digitalization allows for the making of copies and copies from copies in unlimited numbers at very little cost and with no degradation of quality.

Secondly, digitized works can be transmitted over the Internet with a click of a computer mouse. This close-to-instantaneous delivery can be on a worldwide basis, including to countries with little or no adequate copyright protection.

And thirdly, there is the ability to modify—you might say mutilate—digitized works to the distress of their creators and performers.

Mr. Ralph Oman, as former United States Register of Copyrights, put it very well when, in commenting on developments in digital technology, he said that ". . . every plugged-in consumer is a potential author, a potential publisher, and a potential infringer—all at once or at different times. *Everyone* will have the capacity to manufacture copies of works of perfect quality. For many literary works, sound recordings, film and television, this means demand distribution and packaging become a matter of consumer choice."

In December 1993, after long and arduous negotiations, what was then called the Uruguay Round of the General Agreement on Tariffs and Trades concluded a lengthy "Final Act," including an Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs). Quoting a portion of the Administration's statement, the Agreement,

> . . . establishes comprehensive standards for the protection of intellectual property rights in the World Trade Organization [WTO] member countries. It requires each WTO member country to apply the substantive obligations of the world's most important intellectual property conventions, supplements those conventions with substantial additional protection, and ensures that critical enforcement procedures will be available in each member country to safeguard intellectual property rights.

The inclusion of enforcement provisions was the critical advance provided for in the TRIPs Agreement.

Even though the protection of copyright on an international basis was greatly increased by the groundbreaking inclusion of intellectual property in the General Agreement on Tariffs and Trade, it was clear to many that extant copyright laws might not be adequate to protect against some of the uses to which digitized works could, without authorization, be put. This concern led to agreement among about 160 countries in December 1996 under the aegis of the World Intellectual Property Organization, on two treaties, the WIPO Copyright Treaty and the WIPO Performances and Phonograms Treaty. These treaties are currently in effect, having been deposited by the requisite 30 countries. For our purposes here, article 11 of the WIPO Copyright Treaty is of particular importance. It provides that:

> Contracting Parties shall provide adequate legal protection and effective legal remedies against the circumvention of effective technological measures that are used by authors in connection with the exercise of their rights under this Treaty or the Berne Convention and that restrict acts, in respect of their works, which are not authorized by the authors concerned or permitted by law.

The United States ratified both treaties quickly and enacted implementing legislation, the Digital Millennium Copyright Act (DMCA). That statute requires the Library of Congress to report and make certain recommendations to Congress in connection with issues raised during the legislative debates with respect to the DMCA. Some of the more interesting and controversial provisions are those in section 1201, which prohibit overcoming, or dealing in devices that are intended to overcome, technological protections against unauthorized access to copyrighted works or unauthorized exercise of the rights granted by the Copyright Act.

One would think that with the DMCA, our copyright law, TRIPs, and the likelihood that the countries that agreed to the WIPO Treaties will enact satisfactory implementing legislation, copyright owners would feel comfortable that their rights would remain secure. Why, then, do I suggest that paranoia might not be inappropriate?

For one thing, there is an itch on the part of many people to get hold of copyrighted works for free—in some cases by using a new technology. As is very frequently the case, Shakespeare put it best: "How oft the sight of means to do ill deeds makes ill deeds done." (*King John*, Act II)

For another thing, there is a pervasive sense that certain socially desirable activities are entitled to free or cut-rate copyrighted works.

One example of the attacks on copyright protection was a conference held in May 2002 by The New America Foundation and Public Knowledge in Washington under the title "Protecting the Information Commons: New Initiatives to Advance the Public Interest in Copyright Law and Digital Infrastructure." One of the topics discussed was "Threats to the Public Domain, "which was described as follows: "A number of new technologies and laws are enabling companies to assert proprietary control over information once considered part of the public domain. This trend is raising new questions about how the public's stake in these areas will be protected."

Congressman Rich Boucher, the keynote speaker, spoke of the balance of intellectual property rights as shifting heavily in favor of creators. According to Congressman Boucher, the Motion Picture Association of America and the Recording Industry Association of America are entertainment industry giants that succeeded in pushing the DMCA through Congress. He characterized the DMCA as giving unprecedented rights to copyright owners, going beyond mere compensation to giving total control.

Congressman Boucher cited section 1201 as being the DMCA's most problematic provision. He said that it indiscriminately criminalizes both legitimate and illegitimate acts by punishing the act of circumvention, even where such act was in furtherance of a fair use of the work.

The Congressman also complained that section 1202(a)(2) and (b) limited the so-called "Betamax doctrine" which, according to him, provided that "anytime there are substantial non-infringing uses," the technology is legal.

Copyright has always been subject to decisional and statutorily imposed limitations. Although the only limitation set forth in Clause 8, Section 8 of Article I of the U.S. Constitution is that the exclusive right shall be secured for "limited times," courts very early imposed the further limitation of the Fair Use Doctrine in order to accommodate society's need to use and benefit from an author's creations.

Many courts have recognized the Fair Use Doctrine as one of the most complex and difficult aspects of copyright law. It has well served the needs of criticism, comment, news reporting, teaching, scholarship and research, to use the words of the statute in which the doctrine was for the first time codified as section 107 of the Copyright Act, enacted in 1976. During the gestation period of that legislation, the education community sought expansion of its right to use copyrighted material. The Report of the Committee on the Judiciary of the House of Representatives, in dealing with section 107 pointed out that, "although the works and uses to which the doctrine of fair use is applicable, are as broad as the copyright law itself, most of the discussion of section 107 has centered around questions of classroom reproduction particularly photocopying."

Section 110 of the copyright law provides that copyrighted works may be performed or displayed ". . . by instructors or pupils in the course of face-to-face teaching activities of a non-profit educational institution, in a classroom or similar place devoted to instruction . . ." According to the House Report, the phrase "in the course of face-to-face teaching activities" is intended to exclude broadcasting or other transmissions from an outside location into the classroom, whether radio or television and whether open or closed circuit. The House Report further makes it clear that ". . . nothing in this provision is intended to sanction the unauthorized reproduction of copies or phonorecords for the purpose of classroom performance or display . . ."

The rights granted by section 110 have been expanded by agreements or guidelines among the education community and a number of trade associations of content owners, and I am sure you are all aware of recent discussions concerning possible legislation dealing with distance learning and the fact that the Technology, Education and Copyright Harmonization Act, known as the TEACH Act, was passed in October 2002 and signed into law shortly thereafter.

The TEACH Act amends the copyright law to allow educators at non-profit institutions to transmit, subject to certain restrictions, portions of legally acquired audiovisual works over distance learning networks, without having to obtain permission from the copyright owners.

There have also been attacks on copyright protection in the courts and in Congress. Some examples include:

- The Copyright Term Extension Act, which extended the term of copyright protection by 20 years, and was attacked as unconstitutional in the United States District Court in the District of Columbia. The district court dismissed the suit and that dismissal was both affirmed by the Court of Appeals in a 2-1 decision and by the Supreme Court in a 7-2 decision.
- The Copyright Term Extension Act was passed only at a price. Because of a hold put on the proposed legislation by Congressman Sensenbrenner from Wisconsin, Congress had to agree to passage of the so-called Fairness in Music Licensing Act, which exempted, depending on their sizes and the kind and number of audio and audio-visual devices they have, a number of restaurants and similar establishments from paying music performance royalties for communicating transmissions to the public. This led to a U.S. defeat before the Dispute Settlement Panel of the WTO, which ruled that the statute violated the U.S.'s obligations under TRIPs. The U.S. is now dealing with the problem of complying with the Panel's ruling for monetary compensation.
- A court has ruled unconstitutional a Congressional statute intended to abrogate the immunity granted to states and state agencies by the Eleventh Amendment insofar as it insulates them from suit for copyright infringement.

There have been a number of cases attacking the DMCA, none of which has thus far succeeded. One of the more famous of these cases brought under section 1202 was *Universal City Studios, Inc. v. Reimerdes*,[1] in the Southern District of New York, in which the plaintiff motion picture studios sought and obtained an injunction against those posting DeCSS (a program that decrypted the access control technology protecting DVDs) or knowingly linking it to other Web sites. The Court of Appeals for the Second Circuit affirmed, rejecting First Amendment and "fair use" attacks on the DMCA, ruling that section 1202(a)(2) protects the ability of copyright owners to encrypt copyrighted works with "access" control technology, even when they are published and sold to consumers, so that they can be played back only on compliant devices.

Pursuant to section 1201(a)(1)(C) of the DMCA, the Librarian of Congress conducted a rule-making procedure to determine whether persons who are users of a copyrighted work are likely to be adversely affected in their ability to make non-infringing uses of a particular class of works, by the prohibition in section 1201(a)(1)(A). Section 1201(a)(1)(D) provides that the prohibition against circumvention of technological measures that control access shall not apply to such users with respect to such works.

The Librarian, on the recommendation of the Register of Copyrights, determined that two classes of works shall be subject to such exemption:

1) compilations consisting of lists of Web sites blocked by filtering software applications; and

2) literary works, including computer programs and databases, protected by access control mechanisms that fail to permit access because of malfunction, damage or obsolescence.

They are very narrow classes of works and do not have much impact on copyright owners. This rule, which is set forth in 37 CFR Section 201.40, became effective on October 28, 2000 and is effective until October 28, 2003. The statute provides for further rule-making proceedings for successive three-year periods, and the second of the statutorily triennial proceeding is currently underway. Fifty comments seconding exemption of various kinds of works, focusing to a large extent on a desire to exempt DVDs from coverage by the statute, have been submitted.

In the press and learned journals there are attacks on copyright protection and particularly on the DMCA. The DMCA is seen by some as distorting the copyright balance in favor of copyright owners. Some of the attackers charge that copyright owners rely on a relatively alien notion that copyright is primarily intended not to "Promote the Progress of Science and Useful Arts," but, instead, as a statutory confirmation of some purportedly natural monopoly right.

First, it should be common ground that copyright does not confer a monopoly. Anyone may create the same thing, as long as he or she does not copy a copyrighted work; and anyone may use the *idea* introduced in the copyrighted work.

Secondly, there is reason to believe that such so-called "monopoly right" does more than any other factor to "Promote the Progress . . ." Indeed, the Supreme Court in *Mazer v. Stein*[2] said:

> The economic philosophy behind the clause empowering Congress to grant patents and copyrights is the conviction that encouragement of individual effort by personal gain is the best way to advance public welfare through the talents of authors and inventors in "Science and Useful Arts."

In order to redress that perceived imbalance, some see the public domain and fair use as important counterweights, which they see as endangered by the DMCA.

As to the public domain, the fact is that works do and will continue to flow into the public domain, albeit at a slower pace than previously. Moreover, it is at least arguable that the public benefits—that science and the useful arts are promoted—when works continue under copyright protection. In that circumstance, the copyright owner has the incentive to undertake the effort and expense of reproducing, packaging, promoting and distributing the work, including in the new forms made possible by digitalization.

Fair use is also seen as an important "counterweight." As a matter of fact, many copyright owners in the course of creating their works rely on the Fair Use Doctrine and strongly support it. Moreover, the attacks on copyright pay no heed to the principle enunciated by the Supreme Court in *Harper & Row Publishers, Inc. v. Nation Enterprises*,[3] that the law will imply a limited privilege to use a copyrighted work only where a reasonable copyright owner would have consented to the use.

The DMCA is considered by some as the *bête noir* of copyright protection and is the object of very strong attacks. In considering the place of DMCA in the "copyright balance," it is necessary to understand, as Congress did, the dangers to copyright protection created by digitalization. The Senate Judiciary Committee expressed this as follows:

> Due to the ease with which digital works can be copied and distributed worldwide virtually instantaneously, copyright owners will hesitate to make their works readily available on the Internet without reasonable assurance that they will be protected against massive piracy. [The DMCA] provides this protection and creates the legal platform for launching the global digital online marketplace for copyrighted works. It will facilitate making available quickly and conveniently via the Internet the movies, music, software and literary works that are the fruit of American creative genius.

The Senate Judiciary Committee, in recommending the DMCA for enactment, observed that the provision that made it illegal to traffic in devices that circumvented technological protections was ". . . roughly analogous to making it illegal to break into a house using a tool, the primary purpose of which is to break into houses."

The DMCA is not an unprecedented development. Congress has previously enacted similar legislation protective of copyrights; for example, the Audio Home Recording Act, which prohibits the sale of digital audio recorders that do not prevent serial copying, and the Cable Communications Act, which prohibits manufacture or sale of any device that would, without authority, decrypt satellite cable programming.

Will these protections destroy fair use? I suggest not. We must keep in mind that the creator and owner of data is almost always in the business of publishing and/or distributing. There is no other business or other incentive for the copyright owner to lock up the data and keep it away from the public. What digitalization and the DMCA *do* provide is an opportunity for the copyright owner to charge various prices for various uses. This has been decried as creating a "pay-per-use" society. That criticism can make sense only to people who have never ridden in a taxi, gone to a movie or a play or chosen at the supermarket between large and small cans of tomato juice. The ability to create such price differentials would benefit consumers and society in general.

A third purported "counterweight" in the "copyright balance" is the First Sale Doctrine, codified in section 109 of the Copyright Act. In relevant part, section 109 provides:

> Notwithstanding the provisions of Section 106(3) [the distribution right], the owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord.

Here the claim is made that the First Sale Doctrine would be eliminated if it were not extended to apply to digital transmissions. In order to deal adequately with the issue, it is necessary to understand the basis for and the limitations of the doctrine. The First Sale Doctrine, in its origin and in its current statutory existence, has as its underlying purpose the prevention of using the copyright law to impose price or other conditions on the ability of the owner of a copy of a work to dispose of that copy. It does so in very simple and clear terms, by providing an exception to the right of distribution granted in section 106(3). It provides no other exception to the rights granted by section 106. In particular, it does not provide any exception to the exclusive right of reproduction. Moreover, the exception with respect to the right of distribution is limited to copies "lawfully made under this title."

Since under the First Sale Doctrine the copy owner has only the right to transfer possession of the copy and no right to make or distribute additional copies, the doctrine is properly applied only when a particular copy of a work changes hands. Two persons cannot have simultaneous possession of a copy. Transferring possession of a copy means giving up possession. If the giver and receiver both have copies, as would be the case in a digital transmission, then the scope of the First Sale Doctrine has been exceeded.

Thus properly understood, the First Sale Doctrine applies not only to the traditional media in which works are fixed, but also to tangible digital media, the most prominent being optical disks containing software, sound recordings and motion pictures. The purchaser of a DVD copy of a movie or a CD copy of a music album owns the chattel involved and may, under the First Sale Doctrine, transfer possession of it freely. The purchaser may not, however, make additional copies by virtue of this doctrine. In short, the fact that the tangible medium contains works embodied in digital form does not affect the application of the First Sale Doctrine.

The First Sale Doctrine should not be distorted into a vehicle for permitting unauthorized copying and distribution. As stated above, the doctrine has a particular function, which is to prevent restraints of alienation of particular "lawfully made" copies by the owners thereof, whether in an analog or a digital world. There is no social or economic rationale for altering that policy to permit unlimited reproduction and distribution of protected works by owners of a single copy. Indeed, any such alteration would deal a fatal blow to copyright protection.

Clearly the "counterweights" to which many point are important. Thus far, at least, the fears expressed by some that these "counterweights" will disappear have been largely speculative, whereas the fears expressed by copyright owners have manifested themselves in the real world, as shown by the development of Napster and its brethren and the hacking of CSS, as well as the new developments described above.

Nevertheless, while I do not believe that paranoia by copyright owners is justified, I do believe that energetic protection of copyright as well as public education is necessary. I also believe that with intelligence, goodwill and an understanding of the importance that protection of copyright plays in building our society, the possibility of paranoia will disappear.

Endnotes

1. 111 F. Supp. 2d 294 (S.D.N.Y 2000).
2. 347 U.S. 201 (1954).
3. 471 U.S. 539 (1985).

Bernard Sorkin is Senior Counsel at AOL Time Warner, which participates in a range of entertainment industry sectors, from film to cable television to publishing. Mr. Sorkin has extensive business and legal experience at AOL, where he has been since 1964. Previously Mr. Sorkin was an attorney with Columbia Pictures. His professional activities include service on many committees of various bar associations and on the Advisory Committee on Copyright Registration and Deposit of the Library of Congress.

Entertainment, Arts and Sports Law Section Annual Meeting

New York Marriott Marquis • New York, New York
January 24, 2003

Jeffrey A. Rosenthal, Section Chair
Kenneth A. Nick, Program Co-Chair
Ayala Deutsch, Program Co-Chair
Bernard R. Sorkin, Keynote Speaker

Panelists: **George A. Cooke, Jr., Jonathan S. Frankel, Peter W. Smith, Jeffrey C. Johnson, Michael J. Mellis**

MR. ROSENTHAL: I'd like to welcome everyone. My name is Jeff Rosenthal of Cleary, Gottlieb, Steen & Hamilton, and I'm Chair of the Entertainment, Arts and Sports Law Section, and I would like to welcome you all to our Annual Meeting.

Kenneth A. Nick
Program Co-Chair

Jeffrey A. Rosenthal
Section Chair

Ayala Deutsch
Program Co-Chair

I wanted to start out the meeting today by recognizing the achievements of my predecessor, Judith Bresler of Cowan, DeBaets, Abrahams & Sheppard, and just kind of spend a moment and then give her a gift that we've gotten for her.

Judith served as our Chair from 2000 to 2002, and without taking away from the work or the accomplishments of her predecessors, I think during the time that she served as Section Chair, the Section really grew and thrived. And a couple of the most tangible achievements that we saw during Judith's tenure, and something that's quite tangible to all of you, are two specific things that I would note.

One would be the revival of our *Entertainment, Arts and Sports Law Journal*, and that's been the collaboration of Judith and our *Journal* Chair and our Section Vice-Chair, Elissa Hecker. And our *Journal* has really grown now, I think, into one of the leading entertainment, arts and sports law publications out there. And Elissa is overwhelmed I think every spring, fall and winter with a number of really high-quality submissions, although we always are looking for more.

But it really is in just a short period of time that it has grown into something that I think we're all quite proud of.

The second thing that Judith really spearheaded as Chair was the launching of our Section's Web site, www.nyeasl.org (which will soon be merged with NYSBA's Web site—stay tuned), and I would strongly encourage those who have not been on the Web site to take a look and see what a great resource it is to virtually all of our practices. It has a number of features, such as archived *Journal* articles, calendar of the Section and committee events, noteworthy decisions, links to other entertainment, arts and sports law Web sites and so on. And the most valuable feature that I found with our Web site is that it is fully searchable, you're not just searching with headlines or things like that, but full text searches within articles as well.

So I would certainly encourage people to use that, because I think it's quite valuable. And in recognition of the service that Judith has given to our Section, I just want to present her with this token of appreciation.

MS. BRESLER: I just want to say that there was actually a third accomplishment that took place during my tenure, and that was developing a fabulous, fabulous team of successors and leaders that are spearheaded by Jeff and Elissa, so I thank you.

MR. ROSENTHAL: Before I introduce Kenny Nick and Ayala Deutsch, who have put together the terrific program we have today, I wanted to mention one upcoming event in particular to all of you.

After a number of years, our Section is revising its annual conference. Many of the other Sections, as some of you might be aware, other Sections of the State Bar, have held a Fall or Spring Meeting, generally at a conference center or hotel somewhere outside of New York City.

And after a number of years in which the Entertainment, Arts and Sports Law Section had not had one, we've revised that, and it's going to be held on Friday and Saturday, March 28th and 29th, at the Doral Arrowwood Resort in Rye Brook. So it's something that is a great place for people who want to go and spend part of a weekend, and also convenient for those who are unable to spend the entire time, but would like to just travel up for one of the two days.

Kenny Nick, our Program Chair, and Jay Flemma have put a lot of work into putting together what is shaping up to be a fantastic program so far. It's going to offer seven CLE credits, including two ethics credits. We're going to have an evening cocktail reception, followed by a dinner with Judge Rakoff of the United States District Court for the Southern District of New York, who will deliver our keynote address; and you might be familiar with some of his recent decisions, including the MP3.com case.

We're going to have panels on RIAA versus the artists. We're going to have a two-credit ethics panel. We're going to have—for some of our newer members—a program on breaking into the industry, and we're going to have various break-out sessions to ensure that a number of our committees are represented.

We're going to have theater arts, music, international trademark and licensing and publicity rights break-out sessions. So I would encourage people to look at this, and hopefully many of you would be able to join us for all or part of the program on March 28th and 29th.

Let me now finally introduce Ayala and Kenny, who have put together this program, and they can introduce the remainder of our people. Kenny Nick, as I mentioned, is our Program Chair. He graduated from New York Law School and the University of Michigan at Ann Arbor. He's Vice-President and Assistant Counsel of Fiduciary Trust Company International here in New York, which is an investment management firm. In that role, Kenny provides advice not only on fiduciary matters, banking, corporate law and securities, but also on matters related to technology, software and hardware licensing, intellectual property.

Ayala Deutsch is our Chair on our Committee on Sports, and after graduating from N.Y.U. Law School, she spent several years as my colleague at Cleary Gottlieb, Steen & Hamilton, and then joined the National Basketball Association, where she is now Vice-President and Senior Intellectual Property Counsel at NBA Properties, Inc., and that does include international law as well as trademark and copyright litigation.

And with that I will let Kenny and Ayala take it away. Thank you.

MR. NICK: Thank you, Jeff. Let me first welcome all of you this morning.

I think we've got a wonderful program and excellent panel for you today. I just want to take this opportunity to thank my Co-Chair, Ayala Deutsch, for all of her work. The idea behind the panel and a lot of the speakers you see here were her thoughts, so I would just like to thank her for that.

Let me just briefly give you background of what we're doing here. Copyright law represents a bargain between the public and copyright owners. The public grants certain rights to copyright owners in order to create an incentive for the production and marketplace for the distribution of creative works. But for this bargain to function, there must be some compromise between the rights of the copyright owners, who expect to be compensated for their work, and the public's right to fair use of this material.

By using this axiom, material made from hard-copy material applies when the protected works are viewed, transmitted or downloaded through the Internet. What we will look at today is, among other topics, how do copyright owners enforce their rights for materials placed online?

How do copyright owners seek to enforce their digital rights? What remedies are available to owners of rights, and what defenses are available to those whose reproduction of the protected works goes beyond the concept of fair use?

We will also explore how these issues arise when protected works are disseminated outside of the U.S., and what happens when the information to be protected is not a product, but rather an individual's personal identifiable information.

So without further ado, let me introduce the panel of experts we've assembled here today, who will speak much more easily on the topic, and I'll hand it over to them.

Just briefly, our agenda. We're going to hear from each of the panelists, and then we're going to open it up to questions from the audience.

So let me first introduce George Cooke. George was named Senior Vice-President and Chief Counsel for Film Programming for Home Box Office in December 1999. He is responsible for overseeing the negotiating and drafting of agreements for the financing and licensing of motion pictures that appear on HBO services, as well as corporate and securities matters. George joined HBO in April 1983 as Associate Counsel for Film Programming. He was promoted to Vice-President and Senior Counsel, Film Finance in May 1987, and became head of the Legal Department's film programming area in May 1995, when he was named Vice-President and Chief Counsel, Film Programming. Prior to joining HBO George was an associate in the Boston law firm of Ropes & Gray. George is a Phi Beta Kappa graduate of Dartmouth, has a J.D. degree from Harvard Law School and an M.A. degree from Cambridge.

Next to George is Peter Smith. Peter is a partner in the New York office of Hogan & Hartson, and a member of the firm's corporate securities and finance and intellectual property unit. Peter represents a wide range of clients in the media and technology sector, including those engaged in the direct-to-home satellite television, computer hardware and software, Internet, news media and news publishing industries. Peter represents such clients in connection with the acquisition and sale of proprietary content, mergers and acquisitions, public and private offerings, and strategic joint markets and content within these and other industries. Prior to entering private practice, Peter served as law clerk to the Honorable Ellsworth A. Van Graafeiland of the U.S. Court of Appeals for the Second Circuit. Peter received his B.A. from the University of Delaware and J.D. from Benjamin Cardozo School of Law, where he was editor of the law review. He is a member of the Intellectual Property Law Section of the New York State Bar Association. Welcome, Peter.

Next to Peter is Jeffrey Johnson. Jeffrey Johnson is a partner in the law firm Pryor Cashman Sherman & Flynn. His areas of practice are corporate and corporate finance, intellectual property, biotechnology and technology. Jeff practices in the transactional aspects of technology and intellectual property exploitation, including all aspects of international licensing, private placements, mergers and acquisitions, joint ventures and strategic alliances, as well as related regulatory compliance in the biotech, software, Internet and telecommunications industry. Jeffrey received his J.D. from Buffalo University School of Law and B.A. from the University of Colorado. He's also a member of the Licensing Executives Society and a past Vice-President of Legal and Patents of BTG International, Inc.

Next to Jeff is Jonathan Frankel. Jonathan is an associate in the telecommunications and electronic commerce practice group of the Washington, D.C., office of Swidler Berlin Shereff Friedman. John has been active in the representation of domestic and international telecommunications providers, electronic commerce providers, Internet service providers, trade associations, Internet portals, venture capitalists, entrepreneurs and emerging and established technology companies. Mr. Frankel also advises various clients on matters on their Internet business models, drafts, and negotiates various e-commerce and technology contracts, such as Web hosting agreements and software licensing contracts. Mr. Frankel represents e-commerce providers and Internet service providers in domain name and Digital Millennium Copyright Act disputes. John is a graduate of the University of Michigan, where he was a magna cum laude. He received his J.D. from George Mason University School of Law.

(left to right) Peter W. Smith, George A. Cooke, Jr. and Bernard R. Sorkin

Next to John is Michael Mellis. Michael is a Senior Vice-President, General Counsel and acting Secretary of Major League Baseball Advanced Media. That's an interactive media company of Major League Baseball, and operates the official Web site of Major League Baseball and each of the 30 individual official club Web sites. Prior to the creation of Major League Baseball Advanced Media, Michael was the Deputy General Counsel, New Media, Major League Baseball Enterprises, Inc. Before joining Major League Baseball, Michael was an associate in the law firm of Patterson, Belknap, Webb & Tyler, where he practiced in the firm's litigation and commercial departments, and focused on intellectual property matters. Before joining Patterson Belknap, he clerked for the Honorable John Bartels, United States District Court for the Eastern District. Michael received his J.D. law degree from Harvard Law School in 1991, and his B.A. from Williams College in 1987.

Those are our panelists, who you'll be hearing from in a little bit.

Before we get to our panelists, it is an extreme pleasure of mine and of the Entertainment, Arts and Sports Law Section to be able to introduce you to our keynote speaker for today, Mr. Bernard Sorkin.

Bernard, as I'm sure you are aware, is Senior Counsel at AOL Time Warner, which participates in a range of entertainment industry sectors, from film to cable television to publishing. Mr. Sorkin has extensive business and legal experience at AOL, where he has been since 1964. Previously Mr. Sorkin was an attorney with Columbia Pictures. His professional activities include service on many committees of various bar associations and on the Advisory Committee on Copyright Registration and Deposit of the Library of Congress. After graduating from the City College of New York, Mr. Sorkin completed his degree from Columbia University and Brooklyn Law School.

[Please refer to page 6 for the entire text of Bernard Sorkin's keynote address.]

(left to right) Michael J. Mellis, Jonathan S. Frankel and Jeffrey C. Johnson

MR. NICK: I think what we heard from Bernard is: Where are we? How have we gotten to this state? What is the underlying law and practice that we have seen? Now our five panelists are going to take us on a much more practical journey through how they, in their day-to-day practices, deal with the issues that Bernard has so articulately laid out for us. I'm going to first now hand the stage over to George Cooke from Home Box Office.

MR. COOKE: Thank you, and thank you again, Bernie. Good morning. I'd like to take this opportunity to discuss digital rights management in a particular context, so that I think a better appreciation can be gotten about how it actually works when you're engaged in trying to exploit a certain product within a series of different places.

And I would like to talk about, in this instance, the theatrical motion picture distribution. And in doing so I would like to touch on a number of matters. I'd like to begin by sketching out very briefly the traditional theatrical motion picture distribution structure.

Then I'd like to address the potential changes to this structure that the digital revolution both promises and threatens. I'd then like to focus particularly on the role that digital rights management is envisioned to play in making sure that the promises outweigh the threats.

I'd like then to touch on some current attempts by traditional distribution media to adapt to the digital revolution. And finally I would like to give what might come next for the motion picture industry and television industry in connection with digitalization.

To begin with then, let's talk briefly about the traditional theatrical motion picture distribution structure. What is it? Its essential structure has grown up over the years, which is that it's designed to maximize revenue through a series of time-sequencing exclusive rights grants in technology-differentiated media.

What do I mean by those big words? Basically when you exploit a theatrical motion picture, you do so pursuant to a timeline in which that motion picture is sequentially released in different media. That timeline has traditionally begun with a release in theaters. It's then followed with a six-month point by release of home videos, whether it's VHS or DVD format. About three months after that, a release in a pay-per-view environment over non-tangible distribution media such as television. About a year after, there are theatrical releases on pay television services such as the one I work for. Perhaps a year after that, or 15 months after that, a release to broadcast and basic cable, and then a cycling of the product indefinitely between various media, such as pay television, broadcast syndication and basic cable.

As the distribution progresses, in order to maximize the revenue, there is a rough relationship pursuant to which the greater the spread of the medium through which the particular product is exploited, the lower the price point.

You can think of it as when you go to the theater, here in New York you pay $10 or $12 for a ticket. You access something on home video, you can—if you purchase it, it's at a certain price; or if it's a rental, it's a couple of bucks a night. Pay-per-view continues to be $2 or $3. Then you get to subscription service, and eventually you pay nothing for it, other than the misery of watching the commercials.

Now, the other aspect of this structure that makes it viable, at least with regard to the typical high-budget theatrical motion picture, is the fact that motion picture studios are supported by the residual value of their film libraries, and understanding the crucial role of digital rights management, you need to keep a focus on this fact.

The motion picture business isn't viable unless you can continue to exploit your library product. In the 20 years I've been in the business, one constant you always see is the fact that independent film distribution companies go bankrupt. And the reason they go bankrupt is because they're in a very high-risk business, and the only way you can sustain yourself in that business is by being able to continually recycle your film library. And if you look at any of the viable players, the one characteristic they all share is a huge library of product that they are continually exploiting.

Now, what do the changes that the Internet promises and threatens amount to, with regard to this industry structure that we've just sketched out?

I think, as Bernie has already pretty much alluded to in more detail, and certainly in a more scholarly fashion than I will, the promises are of two sorts.

The first promise is that you will have a single distribution media that can be effectively controlled by the producer of the product.

Since the late '40s, because of the antitrust actions that separate the motion picture studios from the theatrical distribution, you've had a situation in which the producer will have to use a series of intermediaries to exploit its product.

With digital distribution, there is certainly the promise that sometime in the very near future the producer can control the entire sequence of distribution of product. And what this means, of course, is that wonderful word, which perhaps was a bit less known two or three years ago, and that's "disintermediation." That means eliminating the aggregate or middleman in your distribution chain. Unfortunately, that means HBO. So there are issues that need to be sorted through.

Now, what are the threats that digitalization brings? I think Bernie pointed to these again in much more detail, with much more expertise, but let me remind you first that the threat that digitalization presents is loss of control of the product. And when you lose control of the product, you lose the ability to maximize and get return from it.

Part and parcel of the loss of control of product is the destruction of the residual value of the film library. The economics of the entire motion picture industry resides on these two kinds of foundations.

Digitalization threatens to remove them both.

And I think it's far from idle conjecture to assume that, unless digital rights management is successfully implemented, you will see a collapse of the studio system, and it will no longer be possible rationally to produce motion pictures in the budget ranges we now see. No one is going to bet $300 million on *The Lord of the Rings* if they know that the moment it's first released, the ability to control the distribution is gone.

So we come again to the crucial role of digital rights management in the industry that I participate in. What does it offer to us? It offers in the first instance an opportunity to limit, certainly not to preclude entirely, peer-to-peer sharing. And it also permits us to continue to maximize return on our product by tying usage to price.

Now, having sort of laid out the circumstances and the issues, I'd like to talk very briefly about what's going on right now in the traditional media relating to theatrical motion picture distribution in connection with the digital revolution.

How do we see change at the moment? I think we see it in each of the traditional stages of distribution.

We begin with the notion that motion picture production itself at this point is becoming digitized. It's been well-publicized that Lucas and the *Star Wars* sequel has gone directly to digital production, and I think we're beginning to see the first significant implementation of digital distribution to theaters. No more print; potentially, no more print piracy.

Moving from the theatrical stage into home video and pay-per-view, we see real tumult in these particular areas of the industry. The motion picture studios have already embarked, at least a significant number of them, on the Internet exploitation of their motion pictures through the MovieLink consortium, and the major home video distributors are spinning around trying to figure out some way to deal with both the increased availability of video-on-demand through broadband distribution and on the revolution that's been created by the digital disk. So you see major retailers like Blockbuster going into the pay-per-view business themselves and essentially becoming rack jobbers rather than rental outlets.

In my own particular niche in pay television, we have been very, very aggressive and very concerned to try to meet the changes in our industry brought on by digitalization. And perhaps the most significant area in which we're going to see changes, depending on your cable company, for services like HBO, Starz and Showtime, is in the area of subscription video-on-demand.

It's become very clear to us that, in order for us to remain a viable and effective source of programming, we have to be able to produce an on-demand product. Our ability to do so rests upon digital rights management.

Another area you're seeing a lot of aggressive change in is in the area of the breadth of rights that are necessary to continue to survive as a downstream distributor. HBO will now not acquire product without Internet rights. Clearly there are a couple of predicates to our actual distribution by the Internet, but at this stage it's part of our common business practice to say that unless you give us the ability to distribute by the Internet during our window, we don't want the product.

And finally you see a very significant move, certainly at Home Box Office, and I think throughout the television industry in general, towards original products. In the time I've been here, we've gone from being primarily theatrical motion picture programming to being an enlarged original producer as well.

Similar kinds of trends can be seen in the broadcast industries. You're seeing, in terms of sequence of exploitation, a blending of what is traditionally segregated broadcast and basic cable windows against the current costs of theatrical product.

There isn't yet an unfulfilled promise in the tremendous giveaway of spectrum that was part of high-definition television accommodation. I think the broadcast stations are obviously very much focused on how to use this spectrum to generate revenue to supplant what is going to be a prerogative support base, and you're seeing broadcasters acquiring Internet rights during this sequenced exploitation window.

Now, what's next for our industry, given this current situation, sort of looking ahead a few years? I think the first thing to keep in mind is, the pace of change for the industry is going to be dictated largely by the rate of broadband distribution penetration. None of this is viable until you've got a broadband access to the Internet, because you don't want to spend 30 hours downloading a motion picture. But once you have broadband connectivity, the speed with which these changes occur will increase.

I think we're going to see—as always, whenever there's a new medium introduced—all media will survive, but likely in a transformed way. I think it's pretty sure that film values will erode for after-markets, and again, the traditional after-market distribution media will turn increasingly to event programming, original products and initial programming.

It makes a lot more sense for HBO to spend $120 million for a couple of episodes of the "Sopranos" than to spend $20 million for a theatrical motion picture that everyone has access to on the Internet.

Another thing we're going to see is marginalization of distribution media that were based upon now-superseded technological limitations. What I'm talking about here is broadcast. An entire industry was built on the allocation of certain broadcast footprints, local stations and televisions on the low side. I think we're seeing over the next 10 to 15 years their marginalization, and they'll be supplanted. It no longer makes sense.

I think the final aspect that is going to emerge, in terms of change in the very near future, is what I call the battle for the viewer interface. When so much is available via the Internet, power will reside in the entity that has direct access.

Who will that entity be? Well, there's going to be a big fight with regard to who the participants are going to be: Cable companies, Internet portals, pay-per-view services, dish operators, the owners of electronic programming guides and, indeed, electronic manufacturers themselves.

And what I mean here is when you turn on your monitor, something comes on the screen, and that something that comes on the screen is going to be some form of mechanism to direct new content, and the control of that first interface is going to be very important.

And I think the importance of that interface raises again for us some very significant legal issues, which primarily relate to the extent to which the entity controlling the viewer interface may interfere with the programming to which it provides access.

If you're a cable company, if you're a pay-per-view supplier, if you're a dish operator, what are your legal rights with regard to the framing, linking and alteration of the signal that you're providing access to? What are the limitations on your right to copy and store as a service to the viewer? What are your rights to provide tapes, swap-and-store, whether it's done at the cable operator level or at a set-top box?

These all seem to be wrapped up into a number of fair use issues that Bernie alluded to, and I think there's going to be a significant sort of battle taking place in the next coming years, as we try to figure out how digital rights management relates to the digital revolution and either the survival, the demise or transforming of the traditional distribution media. Thank you.

MR. NICK: Thank you. That was excellent. Next we're going to turn the microphone to Peter Smith from Hogan & Hartson. Peter?

MR. SMITH: I'm going to shift gears a little bit and talk about an issue that I think forms an important backdrop to our discussion on exploitation of content over the Internet and its distribution, and will craft this discussion with a fact that I am not deeming myself as a First Amendment lawyer. I'm a transactional attorney. I help facilitate companies' distribution of proprietary content over a number of different platforms, the Internet being one of them.

Of a particular interest to me, you might say that recent developments in this matter that have awakened me to some extent, are issues arising out of jurisdictions.

In specific, it's a thorny issue that anybody here, in entertainment, arts and sports law, should concern themselves with.

But in the borderless world of the Internet, questions come up as to: Where is an article deemed published when you put it on the Internet? Where might you be subject to suit, in light of the content of that article? Is an online publisher liable in every jurisdiction in which an article can be downloaded? If so, what jurisdiction's laws are to be applied when evaluating that content?

If online publishers are potentially liable in jurisdictions that lack free speech protections to which we're accustomed here in the U.S., should the online publisher think about tailoring its articles to meet the least-tolerant jurisdiction that its contents may pass through?

So what that really brought to my mind for me—and I confess I did spend a little time relating to what the speakers do and trying to pick a topic that fit between them, and I do think this one did. Last month, Australia's high courts justified the exercise of jurisdiction over U.S.-based online publishing to a defamation case based solely on the accessibility of that Web publisher's site.

Just days later, two circuit courts here in the U.S. articulated a different standard, concluding that the sphere of jurisdiction over online publishers is improper where rather defamatory conduct is not specifically directed towards the forum state.

So have any of you—or all of you—reviewed this, without knowing the names of those decisions? If you'd just show hands? So I'll try to get this right. It's—*Dow Jones v. Gutnick*[1] was the case decided in Australia on December 10th.

In that case—I want to talk about the background, because I think it's helpful. Joseph Gutnick was an Australian citizen who had business ties to the U.S. He brought a libel action against Dow Jones, arising from the publication of an article entitled "Unholy Gains," that appeared in *Barron's Online* magazine.

You should know that Barron's magazine is not distributed to Australia at present. The article was available through Dow Jones' wsj.com subscription service, and as such could be downloaded and read in Australia by subscribers.

The primary judge, and that's basically the trial court level, alleged that the allegedly libelous statements were published in the state of Victoria when downloaded by Dow Jones who had met its payment and performance conditions and by the use of their passwords. He rejected Dow Jones' contention that the publication of the article in *Barron's Online* occurred at the servers maintained by Dow Jones in New Jersey, a principle we know and love here.

As such, the primary judge deemed the defamation to occur in Victoria by the Court of Appeals, and the high court agreed with that conclusion. In upholding the conclusion, the high court rejected the single-publication law, which deems a statement to have been published at a particular time and in a particular place, notwithstanding the fact that in the Internet context allegedly defamatory statements can continue to exist and be observed anew by persons far from the assigned place of publication, which is what we see here.

The importance of this rule to American libel jurisprudence, again as I understand it, was articulated last year in *Firth v. State of New York*.[2] That was a New York State Court of Appeals case, which rejected the notion that an alleged defamatory statement posted on the Internet is in fact republished each time it gets accessed or downloaded by an Internet user.

The Australian court dismissed the concerns raised by Dow Jones and others that participated in the case that a ruling in Gutnick's favor would open the door to every jurisdiction. On this note, the court said the specter which Dow Jones sought to conjure up in the present appeal—of a publisher forced to consider every article it publishes on the World Wide Web against the defamation laws of every country from Afghanistan to Zimbabwe—is seen to be unreal when it is recalled that in all except the most unusual of cases, identifying the person about whom the material is to be published will readily identify the defamation law to which that person must resort.

So I think it's not just the person, but probably also the person's address that we might want to concern ourselves with as publishers.

Now, counter to this ruling, we have cases very recently decided in the Fifth and Fourth Circuits. The first of them, *Revell v. Lidov*,[3] was decided in the Fifth Circuit. There the court held that the mere fact that an Internet-accessible article allegedly defamed a Texas resident did not support the exercise of personal jurisdiction in Texas.

Now, by way of background here, Revell was a Texas resident and former Associate Deputy Director of the FBI. He sued Lidov and Columbia University for defamation arising out of Lidov's authorship of an article concerning the Lockerbie bombing of Pan Am Flight 103 several years back. Lidov was not affiliated with Columbia University. He was merely a person who posted an article reflecting his own thoughts on the Web site of the Columbia School of Journalism.

Lidov's article alleged that the Reagan administration had prior knowledge of the impending terrorist act, and criticized Revell's purported complicity in a related conspiracy and cover-up. The article was a little more heated, in that it falsely went on to accuse Revell of changing the flight for his son. He was apparently booked prior to the disaster on Pan Am 103, so needless to say he took a different flight home.

At the time he authored the article, he had never been to Texas, except to change planes, or conducted any business there, and apparently was completely unaware that Revell resided in Texas.

So Revell commenced an action against not just Lidov, but the Board of Trustees of Columbia University and the School of Journalism in the Northern District of Texas, claiming damage to his professional reputation in Texas, and emotional distress arising out of the defendant's alleged defamation. The district court granted motions by all of the defendants in that case to dismiss.

(left to right) Jonathan S. Frankel, Jeffrey C. Johnson, Peter W. Smith, George A. Cooke, Jr., Bernard R. Sorkin and Jeffrey A. Rosenthal

In upholding the district court's dismissal, the Fifth Circuit made certain important observations. On the issue of general jurisdiction, as opposed to specific jurisdiction, the court noted that the Texas long-arm statute reaches as far as it's permitted by federal due-process notions. The court observed that the sliding scale test that was first set out in *Zippo Manufacturing v. Zippo.com*,[4] a standard which weighs the extent to which a Web site is either passive or interactive in functionality, is not well-adapted to the general jurisdiction inquiry, because even if repeated Internet contacts are made, they may not amount to substantial, continuous or systematic contacts that due-process provisions demand.

The court commented that while a Web site may be shown to be doing business with Texas, it may not be shown to do business in Texas. There's quite a distinction there. That's what the Constitution requires, that it's doing business in Texas.

So the fact that the Columbia school Web site permitted Texas users to do things like subscribe to their journal, the *Columbia Journalism Review*, permit advertising on the site, or to submit—as the defendant, the primary defendant—did in the case, electronic materials posted, or even submit electronic applications for admission to the Columbia School of Journalism, all of those thing didn't support the findings.

The court noted that the facts were in stark contrast to the seminal case on general jurisdiction, which was *Perkins*,[5] decided by the U.S. Supreme Court in 1952. In that case, the Ohio court simply ruled that it had jurisdiction over a Philippine corporation that temporarily relocated to the forum, kept its records and held its directors' meetings there, maintained bank accounts there, and made all key business decisions there. So it's no surprise that such a company would be subjected to suit in Ohio.

The court also deemed this conclusion to be consistent with the recent decision in *Bird v. Parsons*,[6] a case in the Sixth Circuit, which found that the Ohio court lacked general jurisdiction over a non-resident company through which an Ohio resident could affect domain registrations, and in fact is true, where something along the lines of 4,000 Ohio residents, this affected those domain registrations.

The record shows that Columbia had managed to sell only 20 subscriptions to the *Columbia Journalism Review*. The Web site is in Australia, by the way.

On the specific jurisdiction issue, the court rejected Revell's argument that under the effects test articulated by the case *Calder v. Jones*[7] by the Supreme Court, Texas's exercise of specific jurisdiction over the defendants would be appropriate.

Speaking of *Calder*, it was a case in which the actress Shirley Jones brought a suit against *The National Enquirer*. It was a print publication case, but I think this uncovered some of the reasoning held by the Fifth and Fourth Circuits for purposes of this discussion.

Shirley Jones was a resident in the State of California, a state in which, by the way, this is a very important fact, *The National Enquirer* had 600,000 subscribers to its weekly. I don't know what that amounts to. Anybody know what the newsstand price is of *The National Enquirer*? It's not a trick question.

So it's a fair amount of income they're receiving on a weekly basis in California, based on those numbers. But at any rate, the Court held that the allegedly libelous story concerned the California activities of a California resident, that it impugned the professionalism of an entertainer whose television career was centered in California.

The Court went on to say that the brunt of the harm in terms of Jones's emotional distress and injury to her reputation was suffered in California, and in sum the Court held that the focal point of both the story and the harm suffered was in that jurisdiction.

So again, I think anybody involved in that case would have trouble explaining the argument that if California represented the singular largest piece of their distribution of *The National Enquirer*, they couldn't prove they were doing business there.

The Fifth Circuit found the distinctions between Revell's case and Jones's in *Calder* to be insurmountable. It noted that the article written by Lidov contains no reference to Texas, nor does it refer to the Texas activities of Revell, and it was not directed at Texas readers as distinguished from readers in other states.

This latter point is an important one. Texas was not the focal point of the article or the harm suffered, the court concluded. The court also noted that Revell did not contest Lidov's claim that he didn't know Revell was residing in Texas at the time of the article. The article was written and posted. That's also an important fact.

And further, that knowledge of the particular forum in which a potential plaintiff will bear the brunt of the harm forms an essential part of the *Calder* test.

Lastly, while Lidov must have known that the harm of the article would hit home wherever Revell resided, a more direct aim is required than we have here.

In short, the article was not about Texas, and if the article had a geographic focus, it would be Washington, D.C., the location Revell allegedly includes where the Reagan administration decided to cover up facts related to the event.

Young v. New Haven Advocate[8] was a case decided on December 13th of last year by the Fourth Circuit. This one came on an interlocutory appeal from the U.S. Western District of Virginia. That case held that the Virginia court can't constitutionally exercise jurisdiction over two Connecticut-based newspapers and members of their staff where defendants did not manifest an intent to aim their Web sites or articles posted on those sites at a Virginia audience.

By way of background, Stanley Young was a Virginia resident and warden of a prison located in the Commonwealth of Virginia. He sued two Connecticut newspapers, the *New Haven Advocate* and *The Hartford Courant*, and their editors and writers and each of those staffs for libel arising from the publication of articles related to the transfer and housing of Connecticut state inmates to the Virginia facility.

The backdrop for this was that, in late 1990, Connecticut, like many states, was suffering a prison overcrowding problem. The issue was a very lively debate, one in the press and one by the public, because among other things, as you can imagine, for anyone who wants to visit an inmate, having to travel to Virginia rather than down the street to the local state penitentiary creates quite a burden on families of inmates, not to mention the financial issues brought to bear in times when there were fiscal issues in the state of Connecticut, like many others.

The article published by the *Advocate* discussed, among other issues, the allegedly harsh conditions typical of the facility, a class action that was undertaken by the transferred inmates against both the warden and the Connecticut Commissioner of Corrections. That claim alleged apparently improper medical care and the denial of religious privileges and other items; and lastly, a Connecticut state senator's expression of concern over Confederate Civil War memorabilia displayed in the warden's office.

The coverage by the *Courant* included mention of alleged cruelty on the part of prison guards towards inmates, and actually went on to characterize the facility as a cut-rate gulag.

So Young was incensed. He commenced an action against the defendants in the Western District of Virginia, claiming that the articles implied that he's a racist who advocates racism and encourages abuse of inmates by the guards at the prison.

The district court denied the defendants' motion to dismiss the action for lack of personal jurisdiction. It was concluded at the district court level that personal jurisdiction can be exercised under Virginia's long-arm statute because, "the defendants' Connecticut-based Internet activities constituted an act leading to an injury to the plaintiff in Virginia."

Specifically, the defendants were well aware of the fact that the plaintiff was employed as a warden within the Virginia correctional system and that he resided in Virginia. They also should have known, according to the district court, that any harm suffered by Young from the circulation of those articles on the Internet would occur in Virginia.

So the defendants took an interlocutory appeal to the Fourth Circuit. Again, it's important to keep in mind, for purposes of this fact pattern, that the *Advocate* is a free weekly publication, published and distributed only locally in New Haven, Connecticut. I suppose it's like the *Village Voice*. The *Courant* is a bit larger publisher in Hartford and distributed locally.

At the time of the suit, the *Courant* had eight subscribers in the State of Virginia. There's no indication that the *Advocate* had any distribution, other than people carrying it on airplanes to the state. No representative of these papers ever traveled to Virginia to work on the articles.

There's a substantial number of phone calls that were made, as you can imagine, by employees of Virginia to gather information. Neither of these papers has offices or employees in Virginia, solicit business in Virginia, or derive any substantial revenue business from goods used or services rendered in Virginia. None of the individual defendants, the reporters or editors, had any traditional contact with Virginia, nor did they solicit business there or have any business relationships or assets there to mention.

So Young, needless to say, didn't bother trying to establish general jurisdiction over the defendants. He was smarter than that, asking the circuit court to re-rule only denial of specific jurisdiction in the case. So, in reversing this decision by the district court, there were a number of observations made that are important again.

In the *ALS Scan*[9] case, decided by the Fourth Circuit, the court noted that specific jurisdiction in the Internet context may be based only on an out-of-state person's Internet activity directed at the forum state and causing injury that gives rise to a potential claim cognizable in that state.

This approach is consistent with the one used by the Supreme Court in the *Calder* case. The Court noted how important it is in light of *Calder* to look at whether a defendant expressly aimed or directed its conduct toward the forum state.

Although the place that the plaintiff feels the alleged injury is plainly relevant to the jurisdictional inquiry, it must be accompanied by the defendant's own sufficient minimum contacts with the state if jurisdiction is to be upheld.

In *ALS Scan*, to which the court cited, the court noted that a person's act of placing information on the Internet, and this is the most helpful point on the issue, is not sufficient by itself to subject that person to personal jurisdiction in each state in which the information is accessed, an approach under the traditional due-process principles governing a state's jurisdiction over persons outside of its borders would be subverted, if that were not the findings.

The court in the Fourth Circuit observed that something more than posting and accessibility is needed to indicate that newspapers purposefully directed their activities in a substantial way to the forum state. The newspapers must, through Internet postings, manifest an intent to target and focus on Virginia readers.

Now, the court thus turned to the Web site content placed in the record by Young, and observed that both papers' Web sites' content was plainly local in nature. As you can imagine, it reflected the local real estate listings, standard and classified advertisements and links to Connecticut-related Web sites and content. It wasn't designed clearly to attract or serve a Virginia audience.

Lastly, the court found that the articles underlying Young's complaint were not posted with the intent to target a Virginia audience. Rather, they were posted in connection with an ongoing public debate of Connecticut's prisoner transfer policy, clearly not something that involved Virginia or any guidance they were seeking, other than the fact they were acting as landlord for some wrongdoers.

The themes are common elements in U.S. cases. One that I like is evaluation of defendants' own minimum contact with the forum state, whether domicile, whether they have offices there or conduct business, whether they have substantial sales there, and the like.

A second is directing electronic activity into the forum state, as distinct from merely making content available in that state via the Internet.

Thirdly, manifested intent of engaging business or other interactions within the forum state or interactions within the forum state.

Further, activities that create in a person within the state a potential cause of action within that state's courts on the libel front, and specific knowledge of the particular forum in which a plaintiff is likely to bear the brunt of harm caused by the article.

So what do we do about *Gutnick*, and where does that leave us as people trying to advise the U.S.-based companies that exploit content over the Internet?

Well, it appears clear that U.S. online publishers may not have the benefit of the latter, more measured approaches to the exercise of jurisdiction.

Might the ability of online publishers to reach global audiences on the Internet, coupled with their inability to efficiently block access to content by specific segments of the global audience, spawn a successful effort to harmonize the many divergent defamation standards worldwide? Or will cases like *Gutnick* merely engender greater efforts by online publishers to develop and deploy technological means to limit access by users located in countries perceived to pose unacceptable liability risks?

As to the vision of one world, one libel standard, I'm a bit of a skeptic. One commentator shared that view. He observed that while the American legal system has long provided strict protections for speakers, it might be difficult to persuade policymakers in other countries to abandon the balances that their own legal systems have reached, in deference to the standards reached under U.S. law. It's a fair comment.

This notion was clear from one of the concurring opinions in *Gutnick*, which explicitly expressed resistance at the imposition of American legal standards in Australian courts. The current opinion said, what the appellant seeks to do is impose upon Australian residents for the purposes of this and many other cases an American legal hegemony in relation to Internet publications.

The consequence, if the appellant's submission were to be accepted, would be to confer upon one country, and one notably more benevolent to the commercial and other media than this one, an effective domain over the law of defamation.

Nonetheless, it's hard to imagine a world in which the U.S. would abide a libel doctrine pursuant to which truth does not constitute a defense.

So how do U.S. online publishers feel about responding to claims in jurisdictions that lack a First Amendment equivalent, or a public-figure doctrine, or—perhaps more importantly—a fair-use doctrine?

It's important to note that the Australian high court's expansive view of jurisdiction in *Gutnick* is not necessarily limited to libel cases. The possibility of liability for online publishers in any country where online speech may be accessed opens the door to applying all the world's censorship laws to U.S.-based publishers' content.

As my colleague Bob Corn-Revere, a First Amendment expert, observed, by such a standard, Web publishers could be forced to block access to information that sabotages national unity in China; undermines religious harmony and public morals in Singapore; offends the social, political, media, economic and religious values of Saudi Arabia; fosters pro-Israeli speech in Syria; or makes available information offensive to public morality in Italy.

I should note, to my knowledge, the bulk of Internet travel going through Saudia Arabia is re-routed and subject to pre-publication review.

And these standards, by the way, technologically—and we can get to this during our panel discussion later—it's interesting to note whether or not local restrictions that are so severe shouldn't be the domain of these local restrictions, in light of what is less restrictive.

Based upon these principles, a French court has already ordered a U.S.-based Yahoo to dissuade and render impossible any access by Internet users in France to the Yahoo Internet auction site displaying Nazi artifacts, a ruling now the subject of an appeal pending before the Ninth Circuit, a decision due any minute.

Moreover, as Michael Geist, professor of law at the University of Ottawa—leading the Jurisdiction II project of the Cyberspace Law Committee of the ABA's Business Law Section—as he points out, it's not just U.S. online publishers who are concerned about jurisdiction.

Online gambling sites are worried the U.S. might seek jurisdiction over them. Online collectors are worried that the EU might assert jurisdiction over them, and anybody operating in the online environment increasingly recognizes that Internet jurisdiction is a risk that all sites have to account for.

So who is most at risk where the question of jurisdiction is unsettled? And, clearly—in my view—it's the deeper pockets.

It appears that the largest online publishers will face the greatest risk of foreign courts, those that maintain offices, conduct business and maintain assets in those jurisdictions where actions may be brought.

It's hard to even imagine Gutnick dragging the *New Haven Advocate* to Australia, clearly a company that has no assets in that jurisdiction.

MR. NICK: We could get back to some of those topics during our panel discussion in a few minutes. I just want to, at this point, move on to our next panelist, Jeff Johnson from Pryor Cashman, and then we'll come back hopefully to Peter, to give you a chance to finish up some of your conclusions.

MR. JOHNSON: Good morning. I'm going to talk briefly about an interesting business model that I've come across in the course of my practice, referred to generally as the hostile host, and then wrap up with a couple of what I find to be interesting analogies in kind of more business-to-business area of what I do.

And I have one general caveat to all my comments, which is in general my observations are, last time I looked, this was true. Every time I look into the Internet things have changed, and they're being done differently than they were the day before.

The hostile-host phenomenon arises in the context of what's known as file sharing or file swapping, the peer-to-peer network. And there are generally two types of peer-to-peer networks, closed networks and open networks. Closed networks generally involve going into a Web site and using that Web site to share content with other participants, users of that Web site.

An open network is more software-based and involves getting access to particular software and sharing content with other owners or users of that same software.

The open networks are particularly insidious from the perspective of content owners, because there's really no central person you can identify, like a Napster, if you will, that facilitates the infringement or contributory infringement.

The enemy, if you will, is really a diffuse conglomeration of people. One of the things to keep in mind with peer networks and time sharing is that there are typically legitimate uses of the software or of the closed networks. The Web sites that you may go to the hostile host is a business model that content owners have developed, really involves a numbers game.

What happens is if you are a participant in a peer-to-peer network sharing—illegally sharing—content, you might ask for *Abbey Road*, for instance, and all other participants in the network who have a copy of *Abbey Road* send you back an e-mail saying, "I've got a copy of *Abbey Road*."

What you don't know when you get that e-mail back is exactly who this person is, other than the identity that you see in the e-mail. A hostile host is somebody who, on behalf of the content owner, will participate in a peer-to-peer network and send responses that are benign. They may not be threatening. They typically don't threaten to come after somebody for illegally infringing, but they might try and sell the content to you, instead of giving the content to you, or might promote other content and make available short snippets of the content you've asked for.

The numbers game they play is in—for example, you ask for a copy of *Abbey Road*, and on average in the network you're participating you get 50 responses. The hostile host might generate 150 aliases that all will respond, all with different names, you don't know who they are, saying "I've got a copy of *Abbey Road*. Come get it from me." So instead of now the user getting 50 responses saying "I've got a copy of *Abbey Road*"; they're getting 200 responses saying "I've got a copy of *Abbey Road*," and 75 percent of the time the person they respond to is going to be the hostile host. It makes it frustrating for a user to use that particular network.

The issues that we have explored come up with a question of: Well, what's the risk to the hostile host? Does the hostile host's business model, if you will, raise any legal liability or potential liability on its behalf? And typically the most cogent area where you can really look into that is breach of contract issues.

Most, if you will, of the closed networks are Web sites that have a term of use that most courts have found constitute a contract between the user and the operator on the Web site; and open networks that are software-based typically have a software license that you have to agree to before you start using the software, which by the way, these software licenses are usually very clear that it's illegal to copy or infringe the software that you're using. In any event, what these agreements frequently have in them are some basic elements.

Typically common to the one is no unauthorized advertising. And, for example, you might see a term that says that you are not to post, transmit or otherwise make available any unsolicited or unauthorized advertising, spam, et cetera. When a hostile host responds to a request for music, if the content of that response is an advertisement, it is unauthorized. It is unsolicited.

These are questions your clients have to ask themselves before they put together responses in the hostile-host context. Interference before service. Most of the terms of use very clearly state that you will not use the Web site in a manner that interferes with use of that Web site by others.

Similarly, most software agreements obligate you not to use the software in a manner that will interfere with other legitimate users of that software's ability to use it. If your normal response rate is 50, and now you're getting 200 responses, are you interfering with the legitimate user's use? And keep in mind it might be a legitimate user. They may be exploring content that isn't protected by copyright.

Another area is false identity. Most of these, particularly the Web sites, say that you can't use the Web site in a manner that misrepresents who you are. Well, obviously, in the hostile-host strategy you are typically misrepresenting who you are, at least initially.

Another area that we've looked into is statutory claims on the federal level. There's a statute, the Computer Fraud and Abuse Act. I don't have the cite immediately in front of me, but it basically provides for federal jurisdiction and penalties in the context of knowingly transmitting a program or information that damages a "protected computer."

If you overwhelm someone's Web site with too many responses and crash his server, have you damaged his computer equipment? There certainly are cases that support that potential perspective, in Virginia. I don't have the cite in front of me. It's in my materials. You can look it up.

There was a case where basically spam e-mail was held to violate the Computer Fraud and Abuse Act. Also you have to keep in mind that the Act provides for a private right of action.

And in my materials I talk about how somebody using one of these user services to share, legally share, content is unlikely to bring a private right of action. One of my colleagues pointed out that a lot of people are looking for a soapbox and my right to bring a private right of action if they think they can succeed, business-to-business issues that are raised in my line of work.

This is kind of a segue outside of the hostile host. I'm going to bring up two issues that I run into that I find fairly interesting. One is Internet purposes. I do a lot of work for clients who aren't providing content to general consumers. It's really business-to-business content.

This particularly comes up in the biotech area, where you're using a database. There's frequently a model and software licensing, and includes an obligation to only use the database for "international purposes." Well, international purposes is rarely defined, and raises the question of what is an international purpose when you're actually looking at content.

If you have a collaboration with scientists at a big farm, or you're a pharmaceutical, and you have a collaboration with a large pharmaceutical company, and your client's sitting in your office, and you're trying to come up with a cure for cancer, and you're using a database that obligates you to only use the database for international purposes, if you allow the scientists from your strategic partner to use that database while they're conducting the research at your office, is that an international purpose?

You need to address issues like that frequently, and it does become a little bit tricky and frequently contentious when you're creating those issues with owners of a database.

Another area is in mergers and acquisitions when you get into assets sales, and you're talking about proprietary databases. The question is, are there other copies out there? How can we be sure no one has ever made an unauthorized copy of this? Do we know that we're not going to end up buying the database that is available ubiquitously over the Internet two weeks after we pay $50 million for it?

Those can become tricky issues that can be hard to negotiate, and only now are people really kind of grappling with the answers to those types of questions. That having been said, I will leave it to my colleague to follow on.

MR. NICK: Thanks, Jeff. So far, from George and Peter and Jeff, we really heard from a perspective of when the protected works, works of art or music, are written pieces. What happens, though, when what you're trying protect on the Internet is personal information? Personal privacy. That deals with online issues and digital rights issues. These are some of the topics that John Frankel is going to address for us right now. John?

MR. FRANKEL: Thank you, Kenny. As Kenny mentioned, I'm going to be talking about information privacy. The digital world that we live in, which is more and more dominated by the Internet, e-mail and the massive transfer of information, has created a relatively new area of law, a relatively new body of digital rights, and those are rights that everyone in this room has.

And I'm going to refer to those rights and information as privacy rights. The right of privacy is nothing new. It's been around for quite some time, but information privacy is something that is new or relatively new.

And I'll just give a little bit of background. Information privacy really refers to an individual's control over the collection, news disclosure and disclosure of information that personally identifies that person. And this is basic stuff. This is your name, your address, your e-mail address, your phone number.

It can also include more sensitive information: Your credit card number, your Social Security number, health information, your race, your gender. As you can see, it applies to everyone. And this has become especially relevant for attorneys that practice in intellectual property areas and transactional areas, because privacy becomes an issue when two companies are acquiring each other or acquiring databases.

And it's one of these new areas of the law which just happened to fall into the laps of intellectual property attorneys, so chances are that you will probably deal with these issues.

And unfortunately the law can be quite confusing. There's quite a few laws, and I'm going to try to summarize some of the laws, so that hopefully everyone can leave today with a little better understanding of privacy law and how you might be able to protect your clients, or if you're in house, protect your company.

In the United States there's no comprehensive information privacy law that applies to all personal information. Rather, U.S. privacy law is broken down by essentially privacy sectors such as government surveillance, financial information, medical information, and children's information.

And by way of example, there are a slew of government laws that cover the collection of personal information from individuals, and keep in mind there's no way I can mention all of them. I'll mention a few.

The Communications Assistance for Law Enforcement Act, that is commonly known as CALEA, that requires carriers who are transmitting or switching wire or electronic communications to help the government engage in legally authorized electronics surveillance. That is what I refer to as more of a pro-government statute.

You then have a little bit of a pro-consumer statute in the Electronic Communications Privacy Act. While this Act does expand the copy of federal wiretap laws to include electronic communications such as e-mail and video teleconferencing, it restricts both the government and the private sector from accessing electronic communications, and it also prohibits unauthorized access to stored communications, subject to certain exceptions, which I might mention the F.B.I. takes advantage of those exceptions, and a recent law, which is one of my personal favorites, only because of what it's called. It's referred to as the U.S.A. Patriot Act, and I'm not sure if anyone is familiar with this law.

It's extremely comprehensive. It amends a number of privacy-related laws and was passed in record time by Congress, shortly after the events of September 11th.

The reason I personally like the U.S.A. Patriot Act is apparently the drafters of the act came up with the name U.S.A. Patriot Act, and then instructed their legislative aides to go into a room and figure out how we're going to come up with the name of a statute that incorporates the letters "U.S.A. Patriot Act." What they came up with is "Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism." The acronym is USA PATRIOT.

Apparently a number of low-level legislative aides spent many hours to come up with that.

The Patriot Act is a comprehensive statute. It enhances law enforcement investigative tools to detect and prevent acts of terrorism and address a number of privacy statutes.

There are other federal privacy laws. The Privacy Act of 1974 governs the collection and use of personal identifiable information. The Fair Credit Reporting Act governs use of consumer credit reports. The Cable Communications Privacy Act governs cable subscriber information. The Video Privacy Protection Act prohibits disclosure in that area.

I didn't mention state law. It's important to mention that if you're dealing with privacy issues, don't just look to federal law. There may be a state law that is on point, and you should keep that in mind.

The next set of statutes are really of the more pro-consumer statutes that recently have been enacted. A number of these statutes talk about this concept of opt-in and opt-out, and I'm going to briefly describe that. It's a concept that many people don't understand or get confused with, and it's because it's so commonly misused by everyone.

But basically it's a method that requires companies to allow the individuals who they collect information about to restrict the disclosure of that information.

Opt-out is less restrictive. Opt-out means: I'm Company ABC. We collect your information. We're going to share it with these people, unless you tell us that we can't. If the consumer says nothing, the company shares the information.

Opt-in means that consumers have to actually give their express permission to share the information. As you might imagine, companies that rely on personal information for communicating with their customers for marketing prefer opt-out.

Some of the specific sectors that have had privacy laws passed in, in the financial sector is the Gramm-Leach-Bliley Act. I don't know if anyone has had to deal with Gramm-Leach-Bliley. It's really a beast of a statute. It's one of those statutes that after you spend about an hour and a half reading and trying to figure out what it says, you really need to have a drink and question why you decided to even practice law.

The Gramm-Leach-Bliley Act has highly intensive definitions. It sets forth notice requirements and restrictions on the ability of financial institutions, which are very broadly defined, to disclose non-public personal information about consumers to non-affiliated parties. Every one of those terms is defined and requires you to go searching through banking statutes, which I'm sure Kenny Nick loves, but drives me personally crazy.

The important thing to understand about Gramm-Leach-Bliley is that even if you don't think it might apply to you because you don't feel you're a financial institution, think again.

The best example is: Law firms were shocked to learn upon the passage of Gramm-Leach-Bliley that they're required to adhere to the Act to the extent they have clients who they provide financial, tax or estate planning advice to.

Law firms were very upset by that. I don't blame them. Lawyers obviously are subject to professional rules of responsibility and attorney-client privilege, which are significant and more restrictive. It seems silly to tell your clients we're going to protect your information when we're already required to do so.

The ABA actually requested that the FTC give lawyers an exception. The FTC summarily denied a request and said, "It's not our problem. Go to Congress and put on your lobbying shoes and get them to change the law."

Another law which applies to a particular sector is the Children's Online Privacy Protection Act. This protects the collection of private or personal information from children who are under 13. It's also quite a complex law. The important thing to remember is that this law is—even if you don't think you collect information from children under 13 or you operate a Web site that's not directed to children under 13—if you ask someone is there a registration process that has his or her birthday and you have an ability to put in the birthday, that makes you then under 13.

You arguably knowingly collected their information and are subject to the Children's Online Privacy Protection Act. The feds have been enforcing this act. The penalty can be pretty steep. I don't have time to go to through how you can prevent that liability.

Maybe we can discuss it during our panel discussion, but it is something to be aware of.

On top of all of these U.S. laws, to add to the confusion, Peter touched upon the European Union. There are data protection laws in various other countries: Canada, Argentina, Australia, Russia, a number of countries in Asia, some that have developed data protection laws, and those laws are typically more restrictive than the laws that exist in the United States.

And it's important to recognize that if you operate a Web site and you collect information from people online, you can collect information from anyone worldwide. And this raises some of the jurisdictional and territorial issues that Peter so eloquently spoke about. These are things that you need to consider in how you're going to handle that.

Typically the very largest companies have gone the route of, for example, UUnet as a privacy policy on share sites that are country specific.

I can't imagine a task like that, to put something like that together, but it's certainly an issue that you want to consider. As far as the outlook for privacy this year, essentially what does the future hold?

Well, privacy was really at the forefront prior to September 11th, and since the events of September 11th, it's really moved to the back burner. And one of the issues that is really important is privacy versus security.

Since the terrorist acts, the government's need for personal information for security and for enforcement purposes seem to overshadow privacy concerns, and this has greatly upset consumer groups, who really want Congress to enact comprehensive privacy legislation.

I personally don't think it's going to happen. It's been teed up for about the past four years every year. It's never been enacted, so I don't foresee a future with a comprehensive U.S. privacy law.

That being said, there are a number of privacy laws out there, and as a practitioner who is advising clients that collect information, it's important to have a general understanding of what these laws are in order to potentially reduce any exposure and risk that your client may be subject to. Thank you.

MR. NICK: Thank you, John. Now we're going to hear from Michael Mellis from Major League Baseball Advanced Media, and I believe Mike is going to take us through how Major League Baseball put its product online for subscription services. Mike?

MR. MELLIS: Good morning, everyone. That is my goal, to try to explain through one industry, in this case Major League Baseball, how it's presently exploiting its digital and audio rights on the Internet, and in particular when I was listening to Mr. Cooke, I think after we're done explaining what we do online, it's an illustration of what he said about how the statutes keep changing with respect to the direct content.

But on the other hand, I think also I'm going to try to show how we tried to accommodate the statute question in terms of broadcast television and in other areas to make the two worlds coincide and align.

First, just by way of background, Major League Baseball exploits its content online for the most part through mlb.com, which consists of 33 Web sites, one for each club, the official Web site for each club, Yankees.com, and mlb.com for the World Series and All Star games.

We do a lot of things on these sites. Just by way of example, we have news, statistics. We sell tickets online for all clubs. We have a store. We have sponsorship. We have syndicated content, and we have a message board. And we have a greeting area, where we sell audio and video on a subscription basis, and also offer some audio and video free. Last year our site in toto had about 500 million visitors, 58 million visits to our news section, about 6½ million votes cast for the All Star Game and other events that we did, and one million paid subscribers for audio and video. We're in year two of doing that.

On page five of the materials that I think are in your packet, I put in some statistics here that I think you might find interesting. I won't go through them all, but the bottom line is, as you can see, if you compare the total number of accesses to our subscription number and our free number, you see that there is a strong and healthy appetite for free content, which is not surprising, considering the way the Internet has entered the public culture in the last five or ten years, but that only four percent of our users access multimedia. And just on the basis of four percent, we have over one million subscribers.

And I think what that suggests is what Mr. Cooke mentioned, as broadband penetration increases right now, I think it's depending on the region of the country. Between 20 or 30 percent, that ability to access multimedia content will grow, and the demand for it will grow and the opportunities for content owners and content distributors will grow.

Another interesting thing, at least something that I found interesting here on this page, is with respect to subscription audio, the distribution of radio on the Internet. That's something that has been around for quite some time, and we think that the people feel comfortable with it, don't need a high speed connection to listen to it.

For that reason, something that's been going on for the last five to seven years, there was a company called Broadcast.com that was a pioneer that did it as a real network does it, and certain companies like ours.

And one interesting thing here that I'll get to in a second in some more detail is the ability to stream a radio station or a television broadcast station, which is something that we've seen done over the years, and in some cases irrespective of rights.

It is something that lawyers would understand, but apparently some people in the broadcast industry don't understand. Just because they have the rights to distribute something on television doesn't mean they necessarily have the right to distribute it on the Internet.

And the practice is less frequent than it used to be, but I spent a lot of time years ago sending C&D letters out to broadcast, particularly TV stations, reminding them with respect to our content they do not have the right to redistribute on a 24-7 basis what we have done on television on the Internet.

The practice in this area, I think is something to keep in mind, because it's something we still see from time to time. In terms of subscription products, I'd like to talk in more detail about what we do specifically and some concerns that are raised.

Our primary audio product is what we call Game Day audio, and that enables a subscriber to listen to any radio broadcast of any baseball game during the season for a fee. Last season it was $14.95 per season.

In developing this product over the last several years—at least to the extent that I've been involved in this—some of the legal considerations which might come to bear in areas that you might find yourselves in are these:

First, our clubs are independently owned and operated, and the team is independently operated, and as far as broadcast content, you have to make sure you have the right, just what I said before, who owns the rights, how have they been parsed out, and to what extent can they be exploited on the Internet.

In the case of baseball, the clubs are copyright owners of broadcast, and they also reserve the right to exploit, to copyright broadcast live and after the fact on the Internet and in other platforms.

Another area that might consume a lot of your time and continues to, is distribution. How do you distribute this type of subscription content to get to the widest audience?

One thing that we do, and I know the NBA did it as well, is have a distribution arrangement with networks which is linked to a Real Player that probably most of you have on your computers, where through their subscription services you can buy our product within our sports package and other types of content in other areas. And in that respect, the network is looking for like a—by way of analogy—the cable MSO.

And these distribution agreements are, I think, as complicated as any others in any other area of context distribution might be, and factors that we have dealt with range not only in rights and all the usual things that go wrong with that, but more subjective things such as how—what kind of limits would we insist on to make sure our content isn't bundled with content that we would think is inappropriate or inconsistent with baseball's image.

Another issue which comes up and which had come up with distribution which left our radio product defenseless, which I think we've skipped past it, but it was a live one a couple of years ago, not with respect to our product, but with respect to the streaming in of radio on the Internet in general, is the existence of advertisements that are on the radio, then being piped through on the Internet.

And the issue there was the objection of some talent groups, that the restrictions in their collective bargaining agreements with their broadcasters did not permit that talent's voice to be redistributed on the Internet, that the talent had only been paid to have his or her voice, for example, on radio, addressed on radio, but not on the Internet.

The way we have dealt with it, even though we're not privy to contracts with respect to this, is we just bleeped out the advertisement, and I think that's becoming more common practice. The irony there is that the company that's paid to have the advertisement produced has the opportunity to have that advertisement distributed in a much wider footprint geographically than it originally might have thought if it was just buying, let's say, a New York City market.

But if the advertisers don't take the extra step to make sure that their talent agreement or talent agreements that their agencies have entered into that permits that broader distribution, they won't be able to enjoy that.

The final issue which comes up, and fortunately up to this point in time has not been a significant one for us, but it's been alluded to by the other speaker, is copying, how to prevent that from happening.

By making our live products available on a subscription basis in streaming media format, that's encrypted, and it's very difficult to copy, and it's proven in the years that we've been doing it to be a pretty good way of getting content out there, and not having to worry about the type of wholesale copying and distribution that the Internet can otherwise permit.

I want to talk about subscription video, because I think it's an example of, again, not how the status quo is changing, but how it's being accommodated. We do several things by way of subscription video. We offer post-game video clips. We offer what we call condensed games, which is a 20-minute version of a baseball game, where we show every payoff pitch, every strikeout, and that boils about a three-hour game down to 20 minutes.

It received a lot of attention in the press. It's not something that many people might prefer to watch, but some people do. It's been called baseball on steroids. It is out there, and it seems to be enjoying some popularity.

Another thing that we do—we started to do this last season and will do much more of this season—is the streaming of live games outright. The first time we did it was this past August for the Yankees-Rangers game.

Then we offered a subscription package at the end of the season. Then we offered the post-season— available on an international basis, but not in the United States and not in Japan because of rights holders' restrictions, and this season we're going to do much more of that.

And here is where we're expected to be, in a place that is similar to what you might know or be familiar with if you have DirectTV, where there are premium sports packages that are packaged on an out-of-market basis.

There's the NFL ticket, NHL and MLB Extra, where if you're in New York and you buy MLB Extra, you can watch every baseball game except those in your market, going along with the long-standing practice, and we're going to do the same thing, and we have done the same thing with respect to streaming games on the Internet through broadband.

And one issue that is a very interesting one here is how we do that, how we prevent people from accessing streams from a particular geographic area. And we do it in three ways. One is through a registration process, where we take in verified credit card information, name, address, telephone number. The second is through very advanced—very advanced—software that tracks the Internet protocol address where you are accessing the information from.

If you're accessing information from a foreign country, your Internet protocol address would indicate what country you're coming from. If you're in the United States, it will indicate where you're coming from, and can get more specific than that. And when we marry that information with the other information that we have about a subscriber, we can determine with a very high degree of competence where that person is coming from.

And we review all that stuff real time, and if we see in the rare instance what we've seen, someone who has represented to us that they are, let's say, in Boston, but they're really in New York, and so they want to see a game that they otherwise are prohibited from that.

And this type of geographically targeted or geographically permitted viewing is something I think you might see a lot more of, because we're not the only industry that has that type of concern.

I think you're also starting to see it in the e-commerce area with respect to the sale of goods. I just heard on the radio, for example, several days ago, that Glaxo said it will no longer sell its pharmaceuticals to Canadian pharmaceutical distributors, who then make them available for sale on the Internet and offer them for sale back into the United States, because the price structures are different.

And Glaxo or the industry in general said it's losing a billion dollars a year.

I think one can imagine a future where you'll be able to buy certain things like pharmaceuticals or content based on where you live, or let's say gamble online, where law permits.

And the technology is probably here for that type of thing, but if it isn't there for the sale of something like a drug today, it probably will be in the next couple of years. I think that will open up a whole new area of a whole industry, but also a whole new set of legal issues that again tie into what the other speakers were speaking about with respect to jurisdiction and which will apply.

That's really what I wanted to point out with what we do, and I would be happy to answer any questions you might have.

MR. NICK: Before we open up to general questions and answers, I think there were just a few topics we wanted to elicit with our panelists, and give them a chance to discuss these issues amongst themselves and amongst all of us.

In the past few days, the Washington, D.C. District Court came down with a decision where it compelled Verizon's Internet group to provide the RIAA with the name of the subscriber who was making available unauthorized copy of songs. Verizon had claimed this was not the intent of what the law was supposed to be. They fought it vigorously, but the district court ruled for the recording industry.

I wonder if the panel has any comment on what the impact of that decision would have on the industry or their clients.

MR. FRANKEL: Well, I think initially for those who aren't familiar with the case, it involved an interpretation of subpoena power under the DMCA.

And it's very clear that both sides viewed this as a test case, and the reason it's a test case is because arguably if copyright owners can use a subpoena to identify the individuals who are infringing, then you might start to see an issue of these subpoenas that start getting sent to ISPs, especially because the copyright owners use something called a boot, which automatically identifies where music is or movies are being infringed, and then it automatically generates an infringement notice.

So this is something that is really—to the extent that the decision is held up, and Verizon made it clear they are going to appeal it, but to the extent that the decision is held up, this could create an unbelievable expense on Internet service providers, large and small, and Internet service providers as large as Verizon could be receiving thousands of subpoenas on a daily basis.

For an Internet service provider that is very small and only provides service to maybe a couple of thousand customers in Montana, it could receive one subpoena, and that could throw it for a complete loop, because they wouldn't know what to do about it. It's a real—I think it's going to be very interesting to see what happens.

I think for the immediate future though, if I were advising a client on it, my response would be—I generally represent the Internet service providers, but my response would generally be—this would assume the decision is appealed, but until the decision has been finalized, so there would be an appeal, and even if it goes to the Supreme Court, that you continue to protect the privacy of your users.

Ultimately, if it goes through, it might start to limit the amount of people who feel comfortable getting on peer-to-peer networks and downloading music. I mean, it really is a test case. So I don't know if any of the other panelists agree or disagree.

MR. NICK: Peter, when you were talking, you were touching on different jurisdictions having different ways of interpreting or applying laws in regard to applications of what we'll call hard-copy laws, libel, slander, et cetera. You have a client whose Web site is clearly going to be disseminated or transmitted across boundaries. How do you advise your client as to the protection that you take or the risk that it might be exposed to that you will see or inconsistency of laws in foreign jurisdictions?

MR. SMITH: I think the most important thing that I can say on this topic is that, you know, there are currently pending, among other things, not just the cases, but the Hague Convention on jurisdictions and foreign judgments. Currently it's an important effort, most importantly—I think an important one to watch.

I can't imagine that the United States would accede to any international convention or standards about the application of foreign jurisdiction laws in the Internet context or the enforceability of judgments based on the viability arising under Internet-based activity. It didn't defer substantially to our notion of due process and the constitutional standards applicable here in the U.S.

But I think it's an important issue and very broad one, but as has been the case with other international measures, the U.S. and people interested in the U.S. I think would have to take a piece-by-piece approach to evaluate any proposal, and would clearly pay a great deal of attention to the way in which their business practices and the expectations, more importantly, of U.S. online users would be impacted.

So for the moment, if I were advising someone tomorrow who's publishing an article, it's an interesting thing, because on the Internet we can't decide to amend a page in a book slated for distribution in the U.K., for example, where libel claims are more easily made on the basis that truth is not an absolute defense.

You have the former life of a rock star using cocaine in the airport that's published in a book, a tell-all. It may very well be true, and that person may very well have a viable claim in the U.K. in respect to that. But what the book publishers can do is pull the page in different versions of the book there. And Internet publishers do not have the same luxury.

So I think today I would urge people to be scrupulous in their adherence to journalistic practices, and to do what they need to do, but to put the argument that they think is fair and use it. And again, this is my opinion. I'm not speaking for any client right now, but I think that it's safe to say until these jurisdictional issues are settled, and courts like the Ninth Circuit in cases having to do with applications of a law, finding or ruling, that we need to rely on our constitutional standards and protections.

MR. NICK: Bernie, did you want to add anything?

MR. SORKIN: I think I can only add an agreement to what Peter has said about the complexity of these issues. The proposed Hague Convention raises a number of very, very significant problems. Fortunately, Jeff Kovar of the State Department, who's leading the U.S. activity, is sympathetic to these problems, and nothing is being rushed ahead, but clearly something will emerge from this exercise. And one of the decisions that U.S. businesses and attorneys have to make is whether to join or let the rest of the world go ahead and create this convention without our participation. That alone is a tough problem.

Peter has spoken about resolving the jurisdictional issues. I'll be damned if I see how that is going to be done.

MS. DEUTSCH: I was just wondering whether you or any of the other content holders could talk a little bit more about how you address some of the jurisdictional issues that have been discussed here by basically deciding or advising your clients to limit the exploitation of rights in countries outside the U.S.

You refer to it somewhat in the subscription content, but I'm wondering whether there are other situations, thereby basically telling your business people we have got to come up with some mechanism so this is not going to expose us to particular countries.

MR. MELLIS: Well, it's a very complicated issue, and I think in my experience we've addressed it on a case-by-case basis, depending on what it is we're talking about. Like for example, a client needs—my client, any client probably needs—to be reminded of some simple things that are obvious to lawyers, but maybe not to them, which is these days those countries that don't respect copyright law, and the fact that when a Web page is published into a particular country like that, it can be copied and duplicated without recourse, and do we care and does that change the way we think about things, and then going on down the line some more—other legal considerations and other matters. So the answer is, it depends.

You know, with respect to the streaming audio and video that we do, as I said, since it's encrypted and subscription-based, it's been a pretty handy way of dealing with that area. Where we're publishing content for free and it goes around the world, I think in that respect we're in a similar situation as anyone who publishes something on the Internet, and you have to think carefully about what it is that you're doing.

Are you selling a good? Are you selling something, offering something there for free, or are you doing something on a subscription basis? And it's very complicated.

MR. NICK: Jeff, and probably Peter, you might want to comment on this. If you have a client who has to enforce digital rights, do you have any advantages or disadvantages to enforce that right through litigation, or would you prefer some sort of alternative dispute resolution or another way to solve these issues?

MR. JOHNSON: Well, I guess the problem with the alternative dispute resolution element to it is typically there's not a contractual relationship between you and the infringer.

But having said that, I—even when there is an opportunity to pursue alternative dispute resolution—I'm probably not a big fan of it, because ten years ago alternative dispute resolution was a great thing, but over time it has kind of turned into a somewhat less-sophisticated litigation process, though certainly there are firms that are capable of generating as many and as much fees and taking as long to do it as they are if they're doing regular litigation.

But the other element to it—going after infringers raises the very touchy issue of picking your battles and picking the way you engage those battles, because there really is a public perception issue that you have to deal with, particularly when you're an AOL Time Warner or Universal or Sony, a large media company, that, you know, you can be perceived as picking on the little guy, and you have to carefully choose those battles.

MR. SMITH: I wholeheartedly agree with everything Jeff said. My predisposition is probably to like ADR also, because as Jeff alluded to, his notion of prioritizing and picking the fights and where you would have them.

The other concern relates to cost and assurance that we can conserve cost by pursuing ADR, but I don't know. I don't believe that's the case for us and for many others, and I don't know about the rest of the panel. That's going to decide the issue ultimately, and I think anybody who is willing to pick a fight would want to try to settle that fight in a jurisdiction, at a circuit court, where the law is favorable and on point, where the jurists deciding are capable and well-intentioned.

MR. NICK: Jeff raised a good question that I would like probably George and Ayala and Mike to some extent to answer, when all three of you work for clients whose product itself is hugely popular, and you are building a product based on your fan base, Major League Baseball or HBO, episodes like "The Sopranos," "Sex in the City," et cetera.

I'm sure many—sometimes you come across sites that are run by, you know, a 14-year-old kid sitting in his basement who loves the Detroit Pistons, so he links up some game footage, or the Yankees or "The Sopranos," and he obtains your rights.

Is it feasible or is it practical to go against every fan for infringement of your rights? How do you choose whether to or not to? George?

MR. COOKE: Well, we certainly had this issue directly in connection with "The Sopranos," which has been phenomenal for us. I think very early on there was a huge proliferation of Sopranos-related Web sites, many quite sophisticated, some commercial, in the sense that they were clearly generating income for the people who put the sites up.

And there was a policy decision made early on that we weren't going to interfere, but for circumstances in which we were clearly dealing with the redistribution of pirated material in its entirety. I mean, if someone has a clip, it's very unlikely that we're going to take action.

If someone is distributing episodes, we're going to be all over it to the extent that we can actually control that. And it doesn't simply relate to the Internet. Anyone who opens the newspaper can see Sopranos pre-dinner theater and so forth. We felt quite comfortable with it, based on the cost benefits. The idea that HBO is going to go in and start stepping on its fans doesn't sell very well. Ayala, what do you do at the NBA?

MS. DEUTSCH: Slightly differently. We also have—you know, although there are fan uses of your intellectual property in all media, I think with the advances of the Internet needs, we are really confronted with, as every other brand and content owner, just an overwhelming amount of use by fans of our protected property. And we also sat down with the business people pretty early on and kind of said, all right, you want to protect the value of your content. That's a very important business purpose, but you also need to protect the goodwill of your fan base.

And it's not just the public perception of David versus Goliath. It's the people that you're going after are actually the people you're counting on to spend money, to generate revenue for your product, so it's even a more direct conflict than that.

We also—I think George mentioned something about this. It is absolutely impossible and ill-advised, I think, to go after every fan site. We try and draw some parameters and standards that we look at to see whether or not it's a case where we're going to take action.

Obviously commercial use or indication that the fan site is generating revenue using your content or IP is something that we look at. We also look at it from an image perspective, tarnishment issues too. We will go after fan sites that have pornography or gambling or other things that are not consistent with the NBA's image.

And in terms of content, we have drawn a line at video and audio, and we haven't limited it to clips. I think in our business clips are it. I mean, people want the highlights anyway. And at least when we know about it, we will take action with respect to any Web sites that are streaming NBA game audio and NBA game video, which we actually see more often.

In an effort to balance that strategy with the concern about your fan base, we definitely have different approaches, different tones. Sometimes it's not a C&D letter. It's a phone call from a business person. Sometimes it's a letter, but it's a much friendlier style.

The 14-year-old kid gets NBA merchandise, so we try and protect our rights in a way that's not going to anger and offend the fans, because the fact of the matter is, as everyone on this panel has mentioned today, the current and future value in the ability to control and exploit your rights digitally is so huge to our business people that—that we draw the line on video and audio. I don't know what Mike at Major League Baseball does.

MR. MELLIS: We approach these issues very similarly and look at what the so-called fan site is doing, and evaluate whether there's a commercial use, what kind of content is being used, with, without authorization, whether it's fair use or not. We do place more emphasis on clips, and if it sounds like HBO doesn't, I can understand why.

And we do try to handle it, cognizant of the fact that in many cases it's three fans who are doing these things. But sometimes there are fans that—sometimes there are people that are fans on one hand, and trying to commercially exploit those intellectual property rights that they have no right to for their own commercial gain, and that's where typically the situation gets more difficult.

MR. COOKE: I note that the issues on the Internet are entirely different from the issues generally in terms of fan usage.

And one of the cases we had recently involved a fan who wanted to put together a Sopranos cookbook, and actually was kind enough to contact us and send us a draft, suggesting that it would be a lovely way to promote our service. We indeed were in the process of putting together a Sopranos cookbook. So there was some discussion to discourage the fan from this publishing venture.

So it's very much a case-by-case analysis, but it's pretty easy in the first instance to get a sense of what is innocent enthusiasm and what is sort of parasitic use, and you have to sort of balance the two.

MR. NICK: I want to give the audience a chance to participate. Sure. The gentleman almost in the back.

AUDIENCE MEMBER: You raise an interesting issue about how you deal with the rabid fans, but you overlooked one important segment of it. How do you deal with the people who have the Internet discussion through some Yahoo groups, you know, Atlanta-based crazies at e-groups, you know, or Yahoo groups?

How do you deal with monitoring them and the way that they infringe on copyrights and trademarks and intellectual property rights by swapping material and make it available and selling it?

MS. DEUTSCH: The NBA does not affirmatively monitor eBay, because I would be dead from overwork right now.

AUDIENCE MEMBER: I'm talking about Yahoo groups.

MS. DEUTSCH: The chat rooms are actually in terms of intellectual property not real forums in which streaming is going to happen, in which the sale of counterfeit product is going to happen, so a lot of misuse of intellectual property that I'm concerned with is really not happening in a chat room.

What's more likely to happen in a chat room is discussion that is sometimes favorable and sometimes not about your clients and their products, and that is really an area that we stay pretty far away from enforcing against.

I'm not a First Amendment lawyer either. I'm an IP lawyer, but that's not something that we monitor or in my experience with the NBA have taken action to enforce. Again, I don't know if that's any different for other rights owners.

MR. MELLIS: Well, if I understand the question that was being asked, and to the extent that someone is sending an e-mail that contains some type of proprietary material, talking about a video, something like that, it seems to me to be that we use the same analysis as we would if it were just static on a Web site, and it wouldn't matter in terms of legal analysis. The factor would be the same.

I think that one major difference is—you asked how do we monitor. I mean, how many e-mails are transmitted a day over the Internet? Couple billion? How could—

AUDIENCE MEMBER: Second of all, you're overlooking a very important segment of the problem. I represent an estate of a man who owns the rights to a quarter of a million copyrighted images, and I have instructed the executor to remember if he prints one or any, offers one on a Web site, be prepared to see that image circulated on every one of the related Internet group discussions, whether it's a chat room, whether it's a membership list like Yahoogroups.com.

And we tested, and soon as we did it somebody is posting it for free, and my client has not been able to sell prints from the negatives because people are downloading the stuff. It has a very definite negative impact, and the only way that the people like my client, who don't have the financial resources that you do, can have any hope of preserving the income stream from the copyright assets that either—or their ancestors spent so much time creating is like people—like I monitor these lists, and they come down and say circulate a copyrighted photograph of Mike Piazza.

And I really do mean it. Please wake up and smell the coffee, and remember that there are little guys like my client who are being ripped off left, right and center, and who do not have the ability, the clout or the endurance to deal with it the way you guys can.

MR. MELLIS: Well, it might take me a little longer to digest this, but, you know, someone said—I remember reading this in 1994 and 1995. The Internet is the world's largest and most sophisticated copying machine.

It is by definition a copying machine. That's what it is. Pages being copied, transmitted, redistributed, e-mails all over the world. That is what it is. So the fact that this has happened to your client is unfortunate, but it's not surprising. It's a variation on Napster. It's a variation on infringement that we deal with. It's a variation on infringement that the other panelists deal with.

But if you're suggesting we have a greater social responsibility to police these chat rooms, that I think is something entirely different.

AUDIENCE MEMBER: Just sort of a flip side. On the other side we have this great backlash in the user commodity as a result of efforts by the film industry, which I'm not criticizing, but Mr. Sorkin mentioned the lawsuit against the peer-to-peer interfaces and home video recorders and everything else, which resulted in these proposed congressional bills to gut the DMCA, and I was wondering what the panelists' responses are to that issue.

MR. NICK: Bernie, anything?

MR. SORKIN: There's been—I think the legislation to which you were referring is the Boucher bill. And I suggested when I was speaking earlier is what Boucher's point of view was on all of this, and yes, it will gut the DMCA.

Now, the DMCA does present problems. No question about it. And some of the criticisms that were made of it have some justification. But I think when we think about the DMCA and try to weigh the pros and cons, we must realize that what has traditionally been called the copyright balance as between users of copyrighted material and owners of copyrighted material has to be shifted, and has to be shifted in the direction that the DMCA provides, of greater protection for the content owners.

And the reason is, for the very reasons I tried to outline earlier, is the dangers that digitalization poses for copyrighted material.

There's no doubt there will be hot and heavy controversy about the Boucher bill and about others of a similar cast, but I think they have to resisted very strongly.

There may be some areas for compromise, but fundamentally the kind of protection that the DMCA provides, and particularly by Section 1201, I think has to be preserved. Otherwise, most if not all of you will remember the phrase "the information superhighway" that is supposed to be created by the Internet and its infrastructure.

Well, an awful lot of investment goes into the Internet and its infrastructure, but if we don't have adequate protections, we will have an information superhighway with no cars on it, because the content owners will not make the product information available in digitized form.

MR. NICK: Anyone else?

MR. COOKE: I'll just second Bernie's approach to that and a couple of personal thoughts. I'm always entertained by going and tying into the Bergman Center up at Harvard Law School, which is one of the great advocates against the DMCA. And it sort of amuses me, because to some degree the fair usages have been broken entirely out of proportion.

It's not as if digitized information suddenly becomes the only source of information, that the only way you'll be able to get to a motion picture is by cracking a digitized code.

I think legitimate fears will continue, and the balance between enabling digital distribution and fair-use arguments is one in which if you do gut DMCA, you will see a different product. There's no doubt about it. If you look at MovieLink, which is the industry consortium to deliver on the Internet product from studios that aren't a member, and the reason is because they're nervous about DMCA remaining in position and the effectiveness of digital rights management.

So I think in the end, at least from the perspective of wanting to have information freely circulated, the argument is extremely on the side of maintaining—of the legislative framework for digital rights management. I think that the Boucher bill has its own story behind it.

Obviously we at HBO and others are not going to go forward with Internet distribution unless we can rely on some kind of reliable set of technical solutions, to furnish territoriality issues, re-transmission issues. It becomes sort of an industry blocker.

As I said or indicated in my little spiel here, you can't go into a digitized world without being able to control distribution, or else the whole economics falls apart.

So I think while there's some appeal on the intellectual level to being a champion for, you know, fair use, that when you really look at it hard, most of the fair-use arguments, certainly with regard to commercialized entertainment, are frivolous. And forgive me for saying that's a personal opinion, not HBO's.

I don't think the economics are going to allow the DMCA to be gutted, simply because it's going to cost too much. This is America's major export industry. Let's face it. We're not selling a hell of a lot of airplanes, but a lot of motion pictures.

And unless you can have reasonable solutions to digitized distribution, you're going to harm a major American industry, and I think in the end that sort of perspective will prevail, at least hopefully.

AUDIENCE MEMBER: I was a little surprised at when Jonathan invited you guys to disagree with him on his assessment of the *Verizon* case, there would be a big burden to the ISPs to provide names and addresses, we didn't hear from any of you, of the content providers here today.

I don't believe the burden was an issue in that case, and I'm wondering whether any of you people representing content providers would disagree with that assessment.

MS. DEUTSCH: I wouldn't disagree that it's a burden on ISPs. I would say a content owner there would probably be in a situation in which he would be happy to have that be the case when he was trying to get information about an infringer.

I think in the world that we're living in now, in AOL Time Warner world, it's very hard to separate your identity as ISP from your identity as a content owner. I'm not one to speak to that, but that's why there was not a resounding chorus of "hallelujah," but these guys might be better able to speak to that.

MR. SORKIN: Nor I.

MR. COOKE: I think you hit the nail on the head. Are you speaking from Dulles, or are you speaking from a corner on 42nd and Seventh? There are different perspectives on that, and which are obvious.

MR. FRANKEL: If I could clarify, the burden was something that I believe you're right, wasn't raised officially, but it was something that was discussed by the judge in the opinion. And I think that it certainly is something that the ISP industry is concerned about.

From the perspective of the content owners, they should be very happy about that.

Arguably the content owners negotiated for that subpoena power when the DMCA was being negotiated in the legislature. The subpoena power was a tradeoff for the ISPs having liability protection to provide contributory infringement.

So obviously the content owners want that ability, and I guess the real question is whether or not they're going to actually go after the individuals. I think that will be very interesting to watch and see what happens.

A VOICE: That was a great question.

AUDIENCE MEMBER: Question for George and Bernie and the rest of the group. It seems to me one of the more surface arguments against the 1201 would be the difficulty in playing back, for example, on different platforms, legitimate platforms, and things like DVD coding, where you might not be playing back your program, your video, in different platforms in different countries and Internet releases at different times.

So it sort of seems to invite people to say: Wait a minute. Why do I have to wait? Why can't I watch this on this other platform? Because it would seem those are services that I think are strong, but that's really not what they care about. They want to crack it and copy, and that's what I think the Internet industry is more concerned about.

Are there steps being taken from a business perspective to try to make sure product is offered on multilevel platforms or simultaneously, so for example this kid in Norway, he could have bought a movie that plays on a Linex system. He would not have needed to crack it, or DVD coding, that, you know, either eliminates that, or offer the thing simultaneously worldwide. It should be—

MR. SORKIN: Let me try what may not be a completely satisfactory answer to that question.

The answer is yes. There are efforts being made to release pictures simultaneously throughout the world. So that if that were successful, to some extent at least the regional coding would not be necessary.

The problem is if we go back to what George Cooke was saying about the structure of motion picture distribution and the sequence it's in, which it necessarily has to go, it's very difficult. Even if one could, as a matter of economics, and perhaps again, as George suggested, there wouldn't be anymore the need to distribute pictures in this amorphous kind of way.

But even if it could be made economically possible to release pictures in every territory in the world on the same day, you run into the question of differing tastes, differing number of theaters, differing theater-going habits in countries throughout the world.

So a picture released in the United States may play before it should be made available in—home video may play for six months, let's say, whereas the same picture released in England or France or Italy or China could play for a much shorter time. Then what does one do about making the picture available in these disparate windows, so to speak, in the other countries?

So that attempts are being made to work on that, but how soon, how successful it is is very hard to say.

AUDIENCE MEMBER: I have a question with regard to digital distribution of film in international territories that are not as technologically advanced as we are.

How is that being handled? First of all, are the licensees or potential distributors expected to catch up technologically before they're licensed to? And second of all, if they are, are Western motion picture organizations prepared to enforce or install some sort of mechanism which would enable economically the theatrical licensees to catch up, or is there still going to be manual distribution or release for those licensees?

MR. COOKE: It's a bunch of questions. I'm afraid I can't give a sophisticated answer, mostly because I deal with domestic distribution in the work that I do.

I think in the end, if you look back to the larger picture, there's always going to be an incentive on the distributor to maximize revenue, to look at it kind of like that. And what you really want to do, as Bernie was alluding to in response to the earlier question, you have to look territory by territory.

And there are people other than—not I, who do this for a living, and they know very much, you know, why it's important to release a film in France as opposed to Tanzania or in the Middle East and so forth. I think you're going to see a continued effort on the part of international distributions to maximize revenue in each of these jurisdictions.

I think the sphere of technology isn't so much bounded by political borders these days, other than certain exceptions, in which you have a very strong political regime that's adverse to innovation.

I think that stuff travels. You can pick up a portable DVD player in New York and fly anywhere in the world with it, and you can pretty much do the same thing with a satellite uplink and a piece of technology.

I do think there are going to be forces that homogenize the technology. I think the regionalization in terms of a consuming population will continue to play a role as will local regulation. Certain countries there's a very clear government-imposed sequence in which motion pictures can be exploited.

Lots of jurisdictions are very protective to the native telecommunications industry. So it's a very complicated matrix of issues you have to deal with.

But again, the motivation is always going to be to get product out there as broadly as possible in a way that you can still maximize your return.

AUDIENCE MEMBER: It seems as if it would be necessary—this is being hailed as, you know, a potentially effective means of curbing piracy in territories specifically that are known for that sort of activity. So I was just wondering whether there were certain programs of financial incentives being developed for those territories and those rights.

MR. COOKE: Certainly there have been plenty of discussions going on with representatives of places like China in terms of having something that works.

It's going on, I'm sure, in the former Iron Bloc countries, where at one point, you know, piracy was—it's still rampant. You're trying to reach some kind of accommodation. I think it's a long and fairly complicated process, in which technology plays a role, but I think there are lots of other factors, political factors and social factors that have to go into the mix. It's a complicated issue.

MR. NICK: Jeff, you were talking about this constant battle in P2P networks, between those who are sharing files and the rights owners, and the rights owners' main tool to combat, the hostile host, and you mentioned this back and forth as one-upsmanship by the two parties. Where do you see that battle going or—and do you see rights owners employing different tools other than hostile hosts, and what do you see the progression of it?

MR. JOHNSON: Well, first of all, I think it's important to appreciate—I didn't mean to leave the premise that the hostile host is the main tool. It is a tool.

You've got smart people on both sides of the equation who aren't lawyers, thank God, thinking of things to do instead of ways to go after people, and they're coming up with nothing negative.

There's digital fingerprinting. There's all kinds of stuff that the content owners are developing. And once—inevitably once their technology gets out, there's somebody on the other side who is trying to think of a way to defeat that technology, whether it is hostile host, digital fingerprinting or a variety of other technologies that are out there.

I think it is really a cat-and-mouse game that is in a sense accelerated by the Internet and the nature of information technology. There's always been a cat-and-mouse game between piracy and manufacturers of content, when it was before VHS and Beta that existed. There were people who actually had a problem presumably. I wasn't around for these issues.

Now, you know—then there was Beta and VHS, and there were people copying film, bringing the little camera into the theater and pointing it up and filming it and putting it on VHS, you know. And all of that cat-and-mouse game is played out over the Internet via technology as a more sophisticated cat-and-mouse game, but it's still really just a back and forth, and I don't see there being a conclusive end to it any time soon.

MR. SMITH: If you take the content of satellite television platforms, this is what I think about.

The costs of replacing, you know, smart cards when someone is out there bootlegging technology are astronomical. One of the interesting questions for me, imagine having to distribute a million new cards to your market in that jurisdiction.

But an interesting point that you made, Jeff, I wondered if you have any thoughts if the cat-and-mouse shifts away from technology to programming content, grappling with other devices, security systems that may not reside in hardware systems themselves, might that change the economics of actually enforcing digital rights?

MR. JOHNSON: Well, it's an interesting thought. One of the things I would expect to see, right now you have a box on top of someone's TV set geared for satellite.

You know, things are becoming more and more interconnected. They're probably going to be able some day to download from the satellite pre-programming for that smart card.

Today I don't think so. There may well be that, that I'm not familiar with. So I wouldn't—now, software is certainly different and raises different issues from hardware, replacing hardware and changing it.

But the means of communication, particularly with wireless communications, I think ensures that it's never going to be impossible to find a way to access the technology that you develop, if you know when you develop it that you're going to want to be able to access it.

MR. COOKE: I think it's worth just noting that there is a lot of thought these days that it interfaces between the hardware and software people.

I think it's becoming increasingly clear that they have to be working in concert for the thing to work. And it's a very fine line between set-top product that is convenient to the user and a set-top product that is—when its principal purpose is piracy.

And there's been a lot of back and forth between industries about where you draw that line. And again, that's one of the things that has to be in place before we really move forward into some kind of a viable situation in which you don't have an absolute protection against piracy and peer-to-peer, but you have some kind of economic model, so that you're not putting this stuff out in the street and it disappears.

So I think we're going to continue to see a lot of that, and I think people are optimistic that we're going to arrive at some solutions.

MS. DEUTSCH: Focusing on the people coming up with a circumvention, you know, I take the paradigm of when you go out and try to hunt out counterfeit tee-shirts, trying to explain to fans why it is they have to pay $25 for the tee-shirts instead of $10 for the counterfeit tee-shirts. And I'm wondering whether any of you engaged in any informational campaigns or advertising campaigns to try and educate the public about these issues, and whether you think there's any chance that those campaigns will be successful.

MR. COOKE: I think motion picture has been extremely involved in education, both in terms of the political process and the public, and I think a lot of it is being carried out through trade industries.

MR. SORKIN: That, and also the Copyright Society of the U.S.A. has embarked on an educational program, Copyright Awareness Week, and anybody here who's interested in those kinds of problems should get in touch with them at www.csusa.org. It's extremely important.

We have been talking about rather sophisticated kinds of piracy. From a technological point of view surely, but it— what might be called piracy or at least in my view what I call piracy exists on a lot of levels.

In my view the making of a cassette from a CD for use in the car, because it's more convenient to play it that way, is an illegal reproduction. I might expect even hearing an outcry of horror at that point of view, but I will stick to it.

What the Copyright Society, the Motion Picture Association of America and Recording Industry Association of America and others are trying to do is to embark on an educational program, which starts with people in the very early stages of schooling, and to teach them fundamentally that intangible property is property and should be valued just as much as tangible, because we know that youngsters and oldsters and midsters as well, who would think twice or more before taking the wallet out of their pocket, but have no hesitation about copying your IP work for their own use. And it is a serious problem and very tough to overcome.

MR. JOHNSON: Another thing—another aspect of that, I would presume people are engaging in, but I'm not familiar with what's actually happening, is the arts themselves delivering that message and trade groups or like ASCAP and organizations like that, when they have a very real vested interest in that, and I would think would also be taking some steps.

MR. SORKIN: Thank you.

MR. ROSENTHAL: I was going to ask a question. When I buy a CD or DVD or CD-ROM, I have actually bought a single-user license, that I can now use it on my DVD player or CD player.

I, like Kenny, have a toddler who's about to turn two years old shortly. And I don't know about Kenny's son, but my daughter loves to pull CDs out of the CD player and play with them, or pull them out of the computer and play with them and scratch them up, to the point where they may not be useable.

Why should I not have the ability to make a copy only for use on my machine that I bought in the first place over a CD or CD-ROM or DVD, so if she scratches it up, I still have the license that I purchased, or at least have the ability to exchange it, if I can't copy it, with the manufacturers of it, to continue to use what I have purchased a license for when they did that.

MR. COOKE: Well, I think it's—if your daughter has a book and she loses it, you ought to be able to sort of store away as many copies as you like of that book so it's always available.

I think it's a sympathetic kind of environment when it's a toddler, but I think the answer is if you're the person who created the book or the disk, buy another one. It's not too expensive.

MR. ROSENTHAL: I can photocopy the book if I didn't distribute it to anyone else, but because of protections I can't copy the disk in the same way.

MR. SORKIN: I would have to differ on your right to copy the book, even though you don't make a public copying of it. The reproduction right has no public, so to speak, limitation. Making reproduction is a copyright infringement.

MR. JOHNSON: Nobody goes after you because they're very, very nice.

MR. SORKIN: It's not that we're very, very nice. It's difficult to do.

If you don't mind a little bit of reminiscing, at the time the *Betamax*[10] case—I'm sure it's familiar to all of you, one of the greatest mistakes of the motion picture industry.

But when the Court of Appeals in the *Betamax* case ruled in favor of the plaintiffs, there were editorial cartoons in papers throughout the country of planes sent out by Jack Valenti and carrying magnetic devices that could determine whether you're making a copy in your living room. That's the kind of thing you run into.

MR. COOKE: I think it's a good—it's a good and provocative question, because I think that one of the major rallying cries and one of the major issues in fair use is just one copy, and it opens a very interesting door, because when you have people who do set-top boxes or cable providers or others is the notion that, you know, there's a nice business in making that copy, and you take the step from well, I want to make another copy, because I can put it safely away for my daughter.

So, you know, there's a nice business here, which is I'm going to provide an off-site copy facility so that in fact anything that comes from your TiVo box—First of all, the TiVo box will make a copy, and they'll shoot a copy back to a server somewhere outside your house, because these TiVo boxes, you can spill coffee on them.

It sort of ends up becoming a rationale that essentially guts the notion that—one of the things that copyright, as Bernie so correctly pointed out, protection is making copies, that, you know, you haven't gotten a license of perpetual access to the work. That's another matter.

If you want to buy a perpetual license to the work, you can do that a bit different, and that's sort of the promise of what you can do once you got digital rights management in effect.

What I think rights owners envision is the idea of creating sort of the perfect relationship in the sense that you've got a server with *Gone with the Wind* on it, and you can then sell *Gone with the Wind* anywhere you want and at a certain price point, perpetual lifetime access to *Gone with the Wind* from our server X dollars, being able to see it for a month Y dollars, you know, a week, a day, once, or you can go ahead and do the old fashioned thing, buy a tangible copy and benefit from the First Sale Doctrine, buy two copies, give one to a friend to hold for you forever.

I think it goes back to this notion that at least in an ideal world from an economic standpoint from the people who have to finance the creation of expensive art, you need to control it.

MR. NICK: Just a couple more questions and we're going to wrap up.

AUDIENCE MEMBER: Jeff, by law—you alluded to making a copy that is for personal use or for archival purposes. If you do want to make one copy for your daughter, in the music world you are allowed by law to make one copy.

So for that example, if you do want to make a copy, you're allowed to. You can't make many. You can't distribute it. You can't promote it. You can't sell it.

MR. ROSENTHAL: How is that reconciled with copyright protection schemes that are being put into place, you know, preventing you perhaps making some copies of things?

Because that's kind of where my question was going, because obviously you need to have the balance between the copying. That doesn't really scare people, if I make a copy to put up on a shelf because my daughter scratches it, versus saying: Hey, this is a great idea. I'm going to make copies and now distribute to everybody, because I can still do that. It's how do you balance that kind of thing?

AUDIENCE MEMBER: I want to go back to someone saying, like for instance, ASCAP members against artists to lobby not to have copies. I for one won't put anything on the Internet, whether it be fine art, music or whatever. And movies don't make money off of the movie theater. They make it off distribution.

However, a lot of artists—I am a member of ASCAP—and lots of artists, rap artists, underground artists, have gotten famous off the music playing where the record company wasn't going to pay for their promotion.

So how do you feel about that, when artists are saying, you know, the record company is using me as a tax write-off, and I'm sitting on the shelf, where a lot of rap artists have made big money underground and the record company found them and did it. What do you think about that?

MR. COOKE: I guess in the first instance I suggest that you—if you're an artist, you always have the option to self-distribute, and my response is, you know, God bless you and good luck.

Let's take—again, it gets back to the economics of the music industry or the entertainment industry. When you make a motion picture, you may spend $20 million to make the motion picture, as we did $5 million to make *My Big Fat Greek Wedding*, and you're going to spend that on a disk, and the other piece in terms of, you know, a mass art form is the notion that you have to present it to your public, and you need to have an economic basis to do that, and you can't have that economic basis by giving it away.

I don't want to get into the complexities, because, a) they're complex, and b) it's not my particular area of expertise, the complexities of the relationship between artists and labels.

But at some level, artists become famous because people hear about them. Certainly the Internet is a wonderful vehicle to distribute it, but I know—I wrote a novel. I can post it on the Internet. No one is ever going to read it, because no one is going to go to my particular Web site or server to download the novel.

What I need to do is get a contract with a publishing house that is going to put an ad in *The New York Times* and get me out there. There's an economics behind it. Beyond that, what we're saying is that ultimately it isn't in the interests of some artists to go out and sell, distribute and give it away for free.

In fact, there are a lot of artists who want to get away from the industry by saying you know, damn it, I want it to be for free.

AUDIENCE MEMBER: They're out there doing it. They're signed by the label, and they're going about their business, and the kids on the street or whoever are doing it, making them famous, whereas the label wasn't going to do a promotion and raise them to that level. That's what goes on in the good case.

I take photographs and stuff. I would never put it on the Internet. A lot of my friends encourage me to do it. I won't do it for the reason we've been discussing.

But what about that? I mean, how do you feel about that going on in terms of the fans doing this and actually doing a service to the artists better than the label people?

MR. COOKE: If I'm making a movie, I'm in a different situation than promoting a recording artist. Okay. And again, I think it breaks down to industry-by-industry economics.

It may be very sensible if you have an—again, this is also very controversial, a seven-year contract or a greater-than-seven-year contract, a recording artist, to give stuff away to build up a reputation, so you can make it back in concerts. If you made a motion picture, giving the motion picture away doesn't make someone go out and buy the next motion picture you release. It's different, you know. The motion picture business is different. It's very product-centered.

Certainly sequels are somewhat an exception to that, because giving away, you know, more to *The Lord of the Rings*, you know, first episode isn't probably the best economic bet to get people to see the second episode, even if the second episode is lousy and doesn't sell anybody.

MR. NICK: Thank you, George. The Executive Committee of the Entertainment, Arts and Sports Law Section wants to take a minute just to encourage all its Section members to support our pro bono effort.

We have started our own Pro Bono Committee, chaired by Elisabeth Wolfe. You'll be receiving Pro Bono Updates with more detail shortly.

We have a working partnership with the Volunteer Lawyers for the Arts, in which we are—we, the lawyers of the EASL Section, are—staffing clinics, providing panelists and speakers, receiving CLE credits, exploring relationships with other non-profit organizations in the entertainment, arts and sports law field such as Ice Hockey in Harlem.

We really encourage all of you to participate if you can in these pro bono efforts, with the EASL Section. For more information, check out our *EASL Journal* or our Web site, www.nyeasl.org.

I would like to thank all of you attending this morning's program. I especially want to thank our panelists, Michael Mellis from Major League Baseball; Jonathan Frankel from Swidler Berlin, Jeff Johnson from Pryor Cashman, Peter Smith from Hogan & Hartson, and George Cooke from Home Box Office; Bernard Sorkin from AOL Time Warner; our Section Chair, Jeff Rosenthal; my Co-Chair, Ayala Deutsch; and all the other people who participated and who have assisted us in putting this program together and making it available. And again, thank you all very much for joining us this morning.

Endnotes

1. 194 A.L.R. 433 (Austl. 2002).
2. 98 N.Y.2d 365, 747 N.Y.S.2d 69 (2002).
3. 317 F.3d 467 (5th Cir. 2002).
4. 952 F. Supp. 1119 (W.D. Pa. 1997).
5. *Perkins v. Benguet Mining Co.*, 342 U.S. 437 (1952).
6. 289 F.3d 865 (6th Cir. 2002).
7. 465 U.S. 783 (1984).
8. 315 F.3d 256 (4th Cir. 2002).
9. *ALS Scan, Inc. v. Digital Serv. Consultants, Inc.*, 293 F.3d 707 (4th Cir. 2002).
10. *Universal City Studios, Inc. v. Sony Corp. of Am.*, 659 F.2d 963 (9th Cir. 1981), *rev'd*, 464 U.S. 417 (1984).

Junior Prom or NBA? A Legal Analysis of LeBron James' Failed Quest to Enter the NBA Draft Prior to Graduating from High School

By Christopher B. Abbott (Law Student Initiative Winner)

Over recent years, as the trend of college underclassmen declaring their eligibility for the National Basketball Association (NBA) draft has seemed to grow exponentially, so too has the trend of high school seniors opting to forgo their college eligibility and declare for the draft.[1] In the 2002 NBA draft, 44 underclassmen declared early, including four high school seniors, five international early-entry candidates, three junior college players, four college freshmen, seven college sophomores and 21 college juniors.[2] The height of this surge of underclassmen to the NBA was the 2001 draft in which 75 players applied as early-entry candidates, including six high school seniors, four of whom were drafted in the top eight positions.[3] Compare these numbers with the 1976 draft, which was the first to allow early-entry candidates, where only 13 players had applied for early entry, 10 of them having completed three years in college.[4]

What was considered nearly unfathomable as recently as 10 years ago has now become vogue among high school stars, thanks to the successes of Kevin Garnett, Kobe Bryant and others who successfully made the transition from high school student athletes to NBA superstars. Garnett declared for the 1995 NBA draft after being named as the *USA Today* National High School Player of the Year. He was named to the 1995-96 All-Rookie team, became an all-star in his second season, and by what would have been only his junior season in college, he was named a starter in the NBA All-Star Game.[5] Kobe Bryant experienced a similar meteoric rise as he was drafted in the first round in the 1996 NBA draft, following winning numerous national high school Player of the Year awards. As a rookie Bryant was named to the NBA All-Rookie Second Team, the following season he became the youngest All-Star in NBA history, and this season Bryant became the youngest player in NBA history to win three world championships, during which he was an instrumental part of all three teams.[6] As the NBA becomes increasingly younger and younger, it comes as no surprise that this season there was talk of LeBron James, a high school junior, declaring for the draft. The talk was justified, as many basketball executives considered him worthy of being drafted number one overall following his junior season at St. Vincent-St. Mary High School in Ohio. One director of personnel for an NBA team, who spoke on the condition of anonymity due to NBA rules, stated: "Give me the number one pick right now, and I don't hesitate . . . I think Jason Williams is going to be a special player, and the big guy in China, Yao Ming, he's 7-foot-4 and that's significant. But LeBron is that good and going to be that great."[7]

The 2002 draft was over, and James was still in Ohio, preparing for his senior year in high school. It may seem illogical that such an immense talent would opt to risk injury playing high school ball instead of collecting certain millions of dollars following his selection in the NBA draft. However, LeBron James had no choice, as the decision was made for him under the guidelines of the current Collective Bargaining Agreement (CBA) between the NBA and the National Basketball Players Association (NBPA). The current CBA explicitly limits draft eligibility to players who at the very least are old enough to have graduated from high school. "A person residing within the United States whose high school class has graduated shall be eligible to be selected in an NBA Draft if he renounces his intercollegiate basketball eligibility notice to the NBA at least forty-five (45) days prior to such Draft."[8]

Recently, as the NBA has grown younger and younger, there has even been talk of increasing this threshold to make 20 the minimum age of eligibility for selection in the draft.[9] Representatives of the NBA claim the push for this minimum age results from legitimate concern for the development of NBA players. However, if the younger players were truly hurting the game in terms of the quality of the NBA product, general managers across the league would not have been salivating at the thought of possibly drafting a 17-year-old high school junior.

The NBPA has a different take on the league office's stance regarding the younger players, and its members believe the impetus for the league attempting to increase the minimum eligibility requirement is financially motivated, a function of the NBA salary-cap structure.[10] If the suspicions of NBPA executive director Billy Hunter prove to be correct, perhaps at the expiration of the current CBA, the NBA and NBPA will be able to take these financial concerns into consideration and open the draft to younger players such as LeBron James. However, for now, both parties have collectively bargained for an eligible player's high school class to have already graduated, so James must wait until 2003 to apply for the draft. To fully understand the complexities of collective bargaining in sports, and LeBron

James' situation, one must explore the history of antitrust law as it applies to sports, past litigation involving NBA draft eligibility and also labor law and age discrimination in general.

Antitrust Background

The Sherman Antitrust Act was passed in 1890 to prevent unfair restraint of interstate trade. "Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several States, or with foreign nations, is hereby declared to be illegal."[11] It is facially apparent that excluding a talented basketball player of legal working age from practicing his trade and earning millions of dollars playing professional basketball based solely upon his age is a restraint of his trade. However, a closer look at antitrust litigation will show how certain restraints on trade have been allowed, and why LeBron James probably would have failed had he litigated this issue, due to the current CBA. As will be explored below, precedential caselaw has established guidelines for determining the reasonability of certain restraints on trade. However, other restraints have consistently been deemed unreasonable *per se,* including price fixing, market allocation, resale price maintenance, vertical territorial restrictions and, most importantly to LeBron James' case, group boycotts.[12]

Historically, one of the first arguments raised by any professional sport against which an antitrust action has been brought, is that professional sports are granted an antitrust exemption. This argument usually stems from the exemption that has been bestowed upon professional baseball.[13] However, as the Supreme Court has explicitly limited this exemption to professional baseball, preferring not to perpetuate an earlier mistake, such an argument fails.[14] "[S]ince *Toolson* and *Federal Baseball* are still cited as controlling authority in antitrust actions involving other fields of business, we now specifically limit the rule there established to the facts there involved, i.e., the business of organized professional baseball."[15] Without having an exemption from antitrust litigation at their disposal (as Major League Baseball does), league officials in other sports have been forced to follow the same avenues in defending themselves as the rest of corporate America. A widely used method of defending a restraint of trade against antitrust litigation is to apply the Rule of Reason.

Courts have developed the Rule of Reason specifically to determine if certain trade restraints should be allowed. Essentially, the Rule looks to the restraint in an attempt to balance its pro-competitive benefits with its anti-competitive detriments. If the benefits outweigh the detriments, often the Rule of Reason allows the restraint to remain intact.[16] "The true test of legality is whether the restraint imposed is such as merely regulates and perhaps thereby promotes competition or whether it is such as may suppress or even destroy competition."[17] Studying the application of the Rule of Reason to professional sports is interesting, because most professional sports, basketball included, operate under the umbrella of a professional league. The term "competition" is often viewed in the realm of professional sports as wins and losses, and not necessarily in the framework of finance. In the NBA for example, the New York Knicks do not want to see the Boston Celtics go out of business as that is bad for the collective strength of the league, but the Knicks would not be unhappy if the Celtics did not win a single game all season. It is this differentiation between financial and athletic competitive balance that has helped to limit the application of the Rule of Reason in professional sports.[18]

A landmark case in which a professional sports league was not afforded an exemption from antitrust litigation due to a failure to meet the Rule of Reason standard is *Mackey v. National Football League*.[19] Here John Mackey brought suit against the NFL on antitrust grounds claiming the "Rozelle Rule," which forced teams that had signed free agents from other teams to compensate those others, was an unfair restraint of trade which suppressed the free agent player market.[20] In finding for the plaintiffs that the Rozelle Rule did, in fact, constitute an unfair restraint of trade based upon antitrust legislation, the court established a three-pronged test to determine if a certain restraint should be exempted from antitrust regulation. The test sought to establish: 1) If the restraint impacted only the parties involved; 2) if the disputed topic was a mandatory subject of the parties' collective bargaining; and 3) if the restraint was effectuated through arm's-length bargaining.[21] As there was no mutuality between the parties, the court found that the Rozelle Rule failed the Rule of Reason test.[22] However the court did state that such a restraint would not be illegal *per se* had the parties collectively bargained for it, and even suggested that it was in the best interests of the NFL and its players to reach an agreement on how to govern the free agent market on their own, without litigation.[23] The solutions proposed for the NBA listed at the end of this article takes this suggestion into consideration and will revisit the idea of both parties collectively bargaining to meet their individual needs.

Had the NFL passed the Rule of Reason test in *Mackey*, it would have been granted a non-statutory labor exemption from coverage of the antitrust law. This concept has been applied in typical commercial antitrust cases, as well as those involving professional sports.[24] The backbone of all of these defenses is the existence of a collective bargaining agreement between the employer and the employee, such as the one between the NBA and the NBPA. It is the language of the CBA and the holdings of earlier labor law exemption cases which significantly limited LeBron James' chances of success had he brought suit.

Labor Law Exemption and Collective Bargaining

As mentioned, the non-statutory labor exemption is a useful tool employed by professional sports leagues to circumvent antitrust rules. The non-statutory labor exemption enables an employer to enforce a provision that historically would be considered a *per se* violation of antitrust laws, assuming this provision was collectively bargained for between the employees and the employer.[25] There are three essential standards that must be met in order for a restriction that has been collectively bargained for to be exempt from antitrust litigation. First, to give priority to the collective bargaining agreement, the restraint on trade proposed must principally impact only the parties to the agreement.[26] Second, the restriction in question must concern a mandatory subject of collective bargaining.[27] Lastly, the agreement that is sought to be exempted must be reached through arm's-length, good-faith bargaining.[28]

In limiting eligibility for the NBA draft to persons " . . . whose high school class has graduated . . . " the NBA has excluded an entire segment of the population from practicing its trade.[29] Essentially this constitutes a group boycott, a practice which is considered a *per se* violation of antitrust laws and is only allowed through a labor exemption.[30] As it has been established that, by his exclusion from the NBA draft, LeBron James was victimized by a group boycott, it must also have been determined that the NBA is afforded a non-statutory labor exemption that allows this boycott. Non-statutory labor exemptions have been used in analyses of past litigation involving professional athletic leagues.[31]

An analysis of the NBA CBA will illustrate that the league meets the requirements of the three-pronged test, and thus the NBA is eligible for a non-statutory labor exemption from antitrust legislation. First, does " . . . the restraint on trade primarily affect only the parties to the collective bargaining agreement"?[32] The NBA CBA is an agreement between the NBPA and the NBA. At face value, it would appear that an article of this document that limits eligibility to the NBA draft to persons whose high school class has graduated would impact parties outside of the agreement. LeBron James has not graduated from high school, has never been affiliated with the NBA, and is not a member of the NBPA. James has suffered directly due to the language of Article X, Section 5(a) of the CBA, in that he was barred from entry to the 2002 draft and he has been restrained from practicing his trade of choice. As James is not a member of the NBPA, it would appear that this restraint has already failed to meet the first qualification of the three-pronged test. Yet this is not the case.

McCourt upheld the *Mackey* ruling when it found for the defense and held that the reserve system in effect in the National Hockey League was exempt from antitrust legislation due to a non-statutory labor exemption.[33] The Sixth Circuit did feel that in the absence of a CBA an antitrust violation would have existed, but there was a CBA and evidence of good-faith arm's-length bargaining.[34] Although it applied the principles espoused in *Mackey*, the Sixth Circuit came to a different conclusion by finding for the defense. The Sixth Circuit was able to distinguish the two based on the third prong of the test; where in *Mackey* it was found that the negotiations were not at arm's-length, in *McCourt* they were due to the strength of the National Hockey League Players Association and the existence of a CBA.[35] The holding that a party need not be successful in its bargaining, just that its opponents bargained in good faith at arm's-length, could prove to be important to the NBPA and the NBA.[36] "To say that the Company should have accepted the Union's proposal on this issue is to ignore the language of the statute that the obligation to bargain collectively 'does not compel either party to agree to a proposal or require the making of a concession.'"[37]

Unfortunately for James, in *Wood v. National Basketball Association*, the Second Circuit held that when Leon Wood challenged the NBA draft and salary cap on antitrust violations, although he was not yet a member of the NBPA when it was negotiated or when his negotiation rights were suppressed by the draft and salary cap structure which the CBA had put in place, he was considered to be bound to the CBA.[38] Essentially, "this decision implies that all potential NBA rookies are bound by those CBAs now in place. In addition, if the players agree to incorporate a minimum age requirement into a current CBA, this case suggests that early-entry candidates could not pursue a remedy under antitrust law."[39] In making this decision, the Second Circuit relied more on policy analysis than on legal precedent.[40] The policy that the court relied upon was set forth in the National Labor Relations Act (NLRA), which encourages collective bargaining between employers and employee groups to stimulate commerce and prevent the obstruction of trade through strikes and work stoppages.[41] However, the decision in the Second Circuit becomes at least somewhat less influential when one considers that both *Mackey* and *McCourt* utilized the NLRA to apply the three-pronged test to determine if a non-statutory labor exemption would be granted, while the court in *Wood* seemed to utilize the NLRA to justify failure to examine a potential labor exemption. Another reason James and his legal team may have decided not to bring suit is that Wood was drafted in the 1984 rookie draft, and it took until 1987 for a decision, a negative one for him, to be reached.[42] Barring serious injury or unforeseen circumstances, James is all but certain to be in the NBA 2003 season's draft, which would be quicker than any litigation would be to get him there. However this situation does present a practical reality not yet examined in the context of professional sports. Where would James stand should he get hurt in the interval between the 2002 draft from which he was barred and the 2003 draft in which he will participate? If he is injured in this period, would he be able to sue the league for lost earnings due to its barring him from the 2002 draft?

The next point for examination is whether draft eligibility is a mandatory subject of the collective bargaining agreement. It has generally been held that matters that are considered to be mandatory subjects of collective bargaining are those that affect wages, rate of pay, hours and other conditions of employment.[43] This prong of the test is satisfied, in that it can be held that by establishing when a person is eligible for entry into the NBA, there is contemplation of his potential wages. As indicated above in the discussion of the *Wood* case, persons not yet a member of either of the parties to the NBA's CBA are governed by it. *Wood* implies that " . . . all potential NBA rookies are bound by those CBAs now in place."[44] It can be surmised that if a potential NBA rookie is bound by the agreement, he is also taken into consideration as a party to it. Therefore, establishing a requirement of being of the age to have graduated with one's high school class limits when the person can be eligible for the NBA, and therefore what his wages will be. By eliminating LeBron James and any other talented high school junior (sophomore or freshman, for that matter) from the talent pool for the NBA draft through the CBA, the NBA and NBPA have bargained over when James can begin to earn wages in the NBA, clearly a mandatory subject of collective bargaining.

Finally, it can be concluded that the third prong of the test to grant a non-statutory labor exemption has also been met. Evidence suggests that both sides collectively bargained for this restraint to be included in the CBA in good faith and at arm's-length. The eligibility requirement for the NBA draft has not always stated, as it does now, that a person's high school class must have graduated in order for him to be eligible to be selected by an NBA team. Formerly, the restriction limited eligibility to those players who are four years removed from their high school graduation.[45] This requirement was challenged successfully in *Haywood v. National Basketball Association* as being a violation of antitrust regulations and constituting a group boycott.[46] The Supreme Court cited the district court and noted how this group boycott was an unfair restraint on Mr. Haywood's trade, in that it could retard the development of the skills of his trade.[47] *Haywood* shows that prior to its inclusion in the CBA, these minimum age requirements did constitute a group boycott; because they had not been collectively bargained for at that time, a player such as James would have been eligible to sue on antitrust grounds.

Unfortunately for James, Haywood's successful challenge of this clause led to it becoming a condition that is bargained for collectively between the NBA and the NBPA. It is apparent that if this term was not negotiated in good-faith, arm's-length bargaining, NBA Commissioner David Stern would have increased the eligibility requirement to 20 years old in an attempt to stem the flood of young players into the league.[48] However, "without the acceptance of the players union, such a rule cannot legally be imposed in the NBA because of antitrust implications" such as those outlined above.[49] NBPA President Billy Hunter has responded to these calls for a minimum age requirement by stating that the union would be willing to discuss this issue with the NBA, as no topics are off limits, " . . . but it all has a price."[50] These comments indicate that neither side has an unfair advantage over the other, and any subjects included in the CBA have been agreed upon through good-faith, arm's-length bargaining.

Unless James was able to successfully challenge the policy-oriented decision in *Wood* and have it declared that he is not bound by the CBA, it is apparent that James would not have prevailed on antitrust grounds in a suit to gain entry to the NBA draft. Had it been held that one must actually be a member, and not just a prospective member, of the NBPA to be bound by the CBA, James may have been declared eligible for the draft, been drafted, and then as soon as he signed his contract he would have been governed by a CBA which stipulates he had not met the eligibility requirements for early entry into the draft. So while *Wood* failed to even examine the existence of a non-statutory labor exemption, it achieved a desirable result in that it preserves the strength of the union and its members.[51]

Age Discrimination

As it stands now, the current article in the CBA requiring that persons be of the age that their high school class has graduated constitutes a group boycott under antitrust laws that is permitted to be perpetuated due to the non-statutory labor exemption. LeBron James' cause of action did not necessarily have to be brought under antitrust grounds, however, and at first glance it would appear he is a victim of age discrimination. The controlling statute on age discrimination is The Age Discrimination in Employment Act of 1967 (ADEA). The statute reads:

> It shall be unfair for an employer—(1) to fail or refuse to hire or discharge any individual with respect to his compensation, terms, conditions, or privileges

> of employment, because of such individual's age; (2) to limit, segregate, or classify his employees in any way which would deprive or tend to deprive any individual of employment opportunities or otherwise adversely affect his status as an employee, because of such individual's age; or (3) to reduce the wage rate of any employee in order to comply with this chapter.[52]

In examining the language of the ADEA, it seems apparent that LeBron James would have been able to file a claim under this act against the NBA for age discrimination. The problem lies in the fact that this statute was designed with older employees in mind, who were being marginalized by younger and cheaper alternatives. In fact, the statute explicitly states that the coverage of the statute " . . . shall be limited to individuals who are at least 40 years of age."[53] This obviously excludes persons such as James from coverage and, statutorily speaking, does not prevent him from being a victim of reverse age discrimination.

While youth were not included in the ADEA, in 1975 Congress passed the Age Discrimination Act (ADA), which, although it applied only to federally funded programs, showed an acknowledgment by Congress that often the youth are discriminated against as well by not setting an age limit on who was protected.[54] If the ADEA had been worded similarly to the ADA, perhaps James would have had a legitimate claim. Some critics of the ADEA believe that its wording should follow more closely that of the ADA, as the ADA provides blanket protection over all types of age discrimination. Not only that, but the ADEA almost becomes a directive favorable to workers over 40. In addition, as the fact that since most older workers are generally white males, the ADEA actually has an unintended result of discriminating against women and minorities.[55]

While the ADEA explicitly limits its coverage to those over forty, it has been used as the basis for unsuccessful reverse good-faith claims in the past. The most significant case based upon this claim is *Hamilton v. Caterpillar*.[56] The Seventh Circuit did not find for the plaintiff on the basis of reverse age discrimination under the ADEA, because although the plaintiff claimed that age discrimination is similar to both racial and gender discrimination, in that remedies can often discriminate against the majority, the court saw no evidence that Congress viewed age discrimination as such.[57] In fact, the court goes so far as to say, "there is nothing to suggest that Congress believed age to be the equal of youth in the sense that the races and sexes are deemed equal."[58] Based on the above, and the fact that the ADEA does not provide a remedy for reverse age discrimination, the defense prevailed, just as the NBA would if James had brought a reverse good-faith suit against them.[59]

Although cases such as *Hamilton* illustrate that the ADEA cannot be utilized to support a reverse age-discrimination claim, there is no bar to making claims under state statutes that are age-neutral.[60] In *Hulme v. Barrett*, it was held that "the federal Act does not preempt state age discrimination laws. . . . This action is brought under [Iowa's] statute. Consequently we must look to [Iowa's] Act to determine if plaintiff is a protected person."[61] Essentially, if a state statute does not prescribe an actual age that is protected, all age groups are protected from age-based discrimination. This has been followed in other states.[62] In *Bergen Commercial Bank v. Sisler*, the New Jersey Supreme Court subjected New Jersey's Law Against Discrimination (LAD) to statutory interpretation in order to determine if its bar against employment discrimination based on age applied to youth.[63] The court even used the term "reverse discrimination"; although it also stated that in light of the current market trend favoring younger workers, the burden of proof would be heavy on any plaintiff.[64] The court created this heavy burden by establishing a four-step test for a plaintiff to establish a prima facie case of discrimination. Each element must be fulfilled by a preponderance of the evidence. The test calls for the plaintiff to show:

> (1) background circumstances supporting the decision that the defendant is the unusual employer who discriminates against his majority; (2) that he was performing at a level that met his employer's legitimate expectations; (3) that he was nevertheless fired; and (4) that he was replaced with a candidate sufficiently older to permit an inference of age discrimination.[65]

The test established by the New Jersey Supreme Court was tailored for the facts of the actual case, but in examining them, one can suppose a similar test suited to James' case would ask to show: (1) That the NBA is the unusual employer who discriminates against his majority; (2) that James could perform at a level that met the NBA's legitimate expectations; (3) that nevertheless he was barred from entry to the NBA; and (4) that a candidate sufficiently older was drafted in his stead. It is unclear, assuming this case was in a jurisdiction that followed a similar holding, whether James would prevail under this test. The first three elements are met, in that the NBA does in fact discriminate against youthful persons who could not yet have completed high school, all indications are that James can perform at the NBA level, and James is in fact barred from entry at this point. However, the fourth element is substantially harder to meet. The condition set out by the New Jersey Supreme Court, as well as the one proposed here, both state the discriminated employee must be replaced by an employee who is "sufficiently older." The rule contained in the CBA does not attach an age to the draft eligibility requirement, but rather the stipulation that the player's high school class has graduated. Further complicating James' potential claim under this test is the fact that in the past the NBA has drafted a player LeBron's age (17), none other than Kobe Bryant.[66] Additionally, it is not inconceivable that a person could graduate from high school at the age of 17. Thus the NBA could assert a defense that the requirement embedded in the CBA is one of experience, and not age. Experience is always a legitimate factor in hiring new employees.[67]

State Action

The potential exists for James or someone in a similar situation to bring a discrimination suit against the government under the guidelines of the Fourteenth Amendment. The Fourteenth Amendment affords equal protection to all citizens in that it states: "[N]o state shall make or enforce any law which shall abridge the privileges or immunities of citizens of the United States; nor shall any State deprive any person of life, liberty, or property without due process of law; nor deny to any person within its jurisdiction the equal protection of the laws."[68] Essentially what a plaintiff must do to bring such a claim against a private entity is to show that a " . . . private party is performing a 'public function', acting under 'state compulsion', whether there is a 'nexus', or 'joint action' between the private party and the government."[69]

It is a difficult undertaking to show that the entire NBA is performing a public function, acting under state compulsion, or entwined in a joint action with the government. On a team-by-team basis, this claim may be easier to prove, as many individual sports teams work closely with their local city and state governments. This is illustrated in *Ludtke and Time, Inc. v. Kuhn* where a female reporter sued after being refused access to the New York Yankees' clubhouse for post-game interviews during the 1977 World Series.[70] The district court held that in this instance, New York City's involvement with Yankee Stadium was significant enough to consider this a state action. Because the City of New York had acquired Yankee Stadium through eminent domain and then leased the premises to the Yankees, it was found that the public and private entities were so entwined that a state action claim could be brought for the discrimination exercised against female reporters.[71] It is important to note the fundamental difference between the *Ludtke* case and James' situation. In *Ludtke*, the plaintiff was barred access based solely upon gender to a physical area technically under the control of the city as lessor, while James' situation bars a player entry to a private league that is probably not considered to be entwined with the state.

Ludtke cited five factors the Second Circuit utilizes to determine if something falls under the coverage of state action. These were enumerated in *Jackson v. Statler Foundation,* where the plaintiff brought suit against a charitable organization for racial discrimination.[72] The factors were:

> (1) the degree to which the "private" organization is dependent on governmental aid; (2) the extent and intrusiveness of the governmental regulatory scheme; (3) whether that scheme connotes government approval of the activity or whether the assistance is merely provided to all without such connotation; (4) the extent to which the organization serves a public function or acts as a surrogate for the State; (5) whether the organization has legitimate claims to recognition as a "private" organization in associational or other constitutional terms.[73]

Based upon the five factors outlined above, it would be difficult for a player who brings suit against the NBA to prove that the league is a state actor. The NBA as a collective league is not dependent on governmental aid, there is no governmental regulatory scheme relating to the league, and it would probably be held that the NBA does not serve a public function or act as a surrogate for the state. If one were to bring a suit against the league in which numerous causes of action were prescribed (as in the *Sprewell* case outlined below), perhaps a charge of state action could be explained by the reliance of the government on NBA players' income taxes. There are 30 teams in the league; each with a roster of 12, plus injured players, and the average salary is measured in the millions of dollars. The majority of the NBA players are paid enough to be taxed at the highest income tax percentage, 39.1 percent.[74] Combining the revenue created locally in terms of sales tax and the revenue created nationally due to the players' income tax, one could attempt to present the fact that the NBA does in fact serve a public function. This is unlikely to be affirmed in court, but a sympathetic judge may rule differently. For example in *Stevens v. New York Racing Association, Inc.,* the plaintiff was able to successfully allege state action due to the state's collection of tax revenue from the defendant sporting association.[75] However, this could also be distinguished from a claim against the NBA, as the tax revenue in question in *Stevens* is derived from a law creating the NYRA for the purpose of New York State obtaining tax revenue from wagering on thoroughbred racing.[76]

A high-profile decision in California concerning current Knicks guard Latrell Sprewell demonstrates that James or any other player who brings suit against the NBA would struggle to establish the NBA as a state actor, thus affording the plaintiff protection under the Fourteenth Amendment.[77] In *Sprewell*, the plaintiff brought a litany of charges against his employer following his suspension for viciously attacking his coach not once, but twice during practice. The court flatly rejected the plaintiff's claim that the defendants were state actors, barely even dignifying the charge with an explanation of its dismissal.[78] *Ludtke* illustrated how an individual sports franchise can be entwined with the local government to the point of being considered a state actor, but that was not the case with the Golden State Warriors. Noting how quickly this charge can be defeated against a single club operating under NBA guidelines, one can only imagine the difficulty in establishing the entire league as a state actor.

If, however, a plaintiff is able to establish the NBA as a state actor, he can employ *Shelley v. Kramer* to defeat the minimum age requirement.[79] In *Shelley*, the Supreme Court refused to enforce a private, restrictive covenant that excluded African-Americans from the use or ownership of land within a certain area.[80] The Court maintained that privately, the property owners were free to impose such restrictions, but once the courts have been called upon for enforcement, it becomes a state action.[81] The holding in *Shelley* suggests the Court will not enforce any discriminatory regulation, such as Article 10, section 5(a) of the NBA CBA, but one should be cognizant of the fact that a court will see a large difference between a regulation which discriminates on the basis of race as opposed to youth.

Arbitration

Another topic which warrants mentioning is the fact that Article XXXI of the NBA CBA stipulates that "[a]ny dispute (such dispute hereinafter being referred to as a "Grievance") involving the interpretation or application of, or compliance with, the provisions of this Agreement . . . shall be resolved exclusively by the Grievance Arbitrator in accordance with the procedures set forth in this article."[82] This article has analyzed primarily what would happen in a similar case in a court of law, while the CBA explicitly states that an arbitrator will settle all grievances. This is problematic for James or a player in a similar position who assembles a legal team in an attempt to fight the CBA's restriction on draft eligibility and studies only the above-mentioned case law. If the case goes before an arbitrator and not a jury, then although all of those cases would be influential, they would not be precedential. While James may have been able to examine old decisions to see where his best chance of gaining victory was in a trial, he now must subject himself to the whims of the arbitrator and not know what his chances of victory are until after his hearing.

Solutions to Youth in the NBA

This article has analyzed some of the approaches LeBron James may have taken had he decided to sue the NBA to gain eligibility for the draft. His predicament has been analyzed through an examination of antitrust law, labor exemptions and statutory responses to age discrimination. Although it appears that he may not have had success with any of these avenues, some of his potential courses of action, had they not been successful, might have at least opened the door for future lawsuits to challenge these same eligibility rules with more success.

Although many view LeBron James' talent as unique, in the coming years there will be more and more young players contemplating making the jump from high school underclassmen to NBA draftees. If NBA executives truly want to stem this trend of younger and younger players wanting to enter the NBA, they will have to take action soon. With each young player that successfully makes the transition from high school to the NBA, more attention is drawn to even younger players, touting them as NBA hopefuls. This summer, for the first time ever, Nike invited two eighth-graders, Derrick Caracter and Demond Carter, to its prestigious summer camp for high school basketball stars.[83] Other underclassmen are already gaining national exposure, including Brooklyn junior Sebastian Telfair who was recently featured on the cover of *Slam* with LeBron James.[84]

Perhaps one of the simplest solutions possible is for the two parties, the NBA and the NBPA, to collectively bargain with each of their goals in mind. NBA leadership wants to slow the trend of younger players coming to the NBA, whether it is for player-development reasons as commissioner David Stern maintains, or for financial reasons as NBPA president Billy Hunter alleges.[85] The number-one roadblock to underclassmen eligibility right now is the NBA collective bargaining agreement that is afforded a non-statutory labor exemption from antitrust legislation and specifically prohibits the entry of these younger players. A solution exists that can be negotiated into the next CBA, which would solve both parties' goals: The NBA's dual goals of fiscal responsibility and continued player development, as well as the NBPA's goal of meeting the best interests of all persons who would be bound by the CBA.

Currently there is a strict rookie salary cap implemented by the CBA which restricts wages based on draft position, and also deems that any player selected in the first round be bound to his club for three years with a club option for the fourth season.[86] Perhaps in the negotiations for the next CBA, one of the parties can suggest that the NBA rookie salary cap become a function of experience. The cap should assume a minimum of two years' college experience, as this would fall into line with the 20-year-old age restriction Stern would like to propose. For any college season past the standard amount, the player can have a year knocked off his contract, thus granting him free agency and a bigger contract earlier in his NBA career than is presently allowed. However, if a player has fewer than two years of college experience, each year he is short should be added on to the contract. Thus if James entered the league under this hypothetical CBA this season, his initial contract would be for six years with a club option for a seventh. This ensures that no player who fears sacrificing millions of NBA dollars by risking an injury at the intercollegiate or even high school level would be forced to do so, but it also ensures that a team which drafts a high school player is able to retain the rights to this player long enough for him to develop. The NBPA may be averse to adopting such an agreement, however, as many of its current members have not met the two-college-year requirement. Perhaps a significant wage increase after the season that would have been their second intercollegiate season would help the players accept this proposal.

Another implementation the NBA may want to consider would be to reword the eligibility section in the CBA. Although it was concluded above that requiring a player's class to have graduated from high school would probably withstand an good-faith suit, the NBA can remove all doubt by rewording it to be more experience-oriented. As it was noted above, experience is always a qualifying factor in considering new employees, and this should be kept in mind in the drafting of the new CBA.[87] Instead of limiting eligibility to a person "whose high school class has graduated," perhaps it can be rewritten to limit eligibility to persons who have played a senior season at the high school level. This would unintentionally exclude players who are academically ineligible to play their senior seasons, so an addendum should be added that if the player did not participate in his senior season, high school graduation is necessary. This proposal would be a brighter line of demarcation in determining draft eligibility, and the NBA would defeat any reverse good-faith claims by stating the requirement is there to ensure that all eligible players have at least the experience of playing a senior season at the high school level, or the maturity of a high school graduate, and that age has nothing to do with it.

Endnotes

1. NBA.com, *Draft NY02, Players by Status* (available at http://www.nba.com/draft2002 (June 29, 2002)).
2. *Id.*
3. NBA.com, *Draft NY02, Early Entry Candidate History* (available at http://www.nba.com/draft2002/history/index.html (June 29, 2002)).
4. *Id.*
5. NBA.com, *Kevin Garnett, Player Biography* (available at http://www.nba.com/playerfile/kevin_garnett/bio.html (June 29, 2002)).
6. NBA.com, *Kobe Bryant, Player Biography* (available at http://www.nba.com/playerfile/kobe_bryant/bio.html (June 29, 2002)).
7. Dan Wetzel, *He's Ready Now, But James Must Wait for Hoop Riches* (available at http://www.sportsline.com/b/page/pressbox/0,13284851404,00.html (last updated Jan. 16, 2002)).
8. *NBA-NBPA Collective Bargaining Agreement, Art. X, § 5(a).*
9. CNNSI.com, *The Commish's Wish, Stern Wants Limit to Deter Underclassmen* (available at http://www.cnnsi.com/basketball/nba/1999/draft/news.html (last updated June 24, 1999)).
10. Lang Whitaker, *Player President, Slam*, Vol. 9, No. 6, at 30 (2002), statement of NBPA executive director Billy Hunter:

    > The main problem I have with an age limit is this: The owners are constantly trying to achieve "cost certainty," so that they can project their finances. The rookies are currently locked in a three-year wage scale. Then the team has an option in the fourth year, then an option of first refusal in the fifth year. See, if you're in years one through five, the most a team can pay you is something like $10 million. When the first contract runs out, you get your first big [free agent contract]. And the high school kids are going to get there a lot faster than a college kid. A high school kid is going to be 28 when he gets his [second hit], and he'll get another one after that when he's 33 or 34. But if you're 22 when you come in, and you sign a five-year deal, then you're 27 when you get your first hit. You sign a six or seven-year deal, then you're 34 or 35.

11. 15 U.S.C.A § 1.
12. *See United States v. Socony-Vacuum Oil Co.*, 310 U.S. 150, 60 S. Ct. 811 (1940), *U.S. v. Topco Assocs.*, 405 U.S. 596, 92 S. Ct. 1126 (1972), *Dr. Medical Co., v. John D. Park & Sons Co.*, 220 U.S. 373, 31 S. Ct. 376 (1911), *U.S. v. Arnold Schwinn & Co.*, 388 U.S. 365, 87 S. Ct. 1856 (1967), and *Klor's, Inc. v. Broadway-Hale Stores*, 359 U.S. 207, 79 S. Ct. 705 (1959).
13. *See Federal Baseball Club v. National League*, 259 U.S. 200 (1922) and *Toolson v. New York Yankees, Inc.*, 346 U.S. 356 (1953).
14. *See Radovich v. National Football League*, 352 U.S. 445, 451 (1957).
15. *Id.*
16. *See Standard Oil Company of New Jersey v. U.S.*, 221 U.S. 1 (1911) and *Board of Trade of City of Chicago v. U.S.*, 246 U.S. 238, 244 (1918).
17. *Board of Trade of City of Chicago*, 246 U.S. at 244.
18. *See Smith v. Pro Football Inc.*, 420 F. Supp. 738, 745-46 (D.D.C. 1976), *aff'd in part*, 593 F.2d 1173. James "Yazoo" Smith brought this suit against the league that questioned the legality of the NFL rookie draft under antitrust law. The district court, in rejecting the NFL's application of the Rule of Reason, noted the

differentiation between athletic competitive balance and the economic competition the Sherman Act was seeking to promote:

> According to the defendants' arguments, if a free market for player talent existed today in professional football, the league's current competitive balance would be irretrievably destroyed. . . . According to this argument, the owners of the NFL franchises . . . do not care if they lose money on the operation of their teams, as long as they win games, i.e. they do not conform to the principles of economic decision-making upon which the antitrust laws are premised.

19. *Mackey v. National Football League,* 543 F.2d 606 (8th Cir. 1976).
20. *Id.* at 609.
21. *Id.* at 623.
22. *Id.*
23. *See Mackey,* 543 F.2d at 623 which states:

> It may be that some reasonable restrictions relating to player transfers are necessary for the successful operation of the NFL. The protection of mutual interests of both the players and the clubs may indeed require this. We encourage the parties to resolve this question through collective bargaining. The parties are far better situated to agreeably resolve what rules governing player transfers are best suited for their mutual interests than the courts. . . . However no mutual resolution of this issue appears within the present record. Therefore, the Rozelle Rule, as it is presently implemented, must be set aside as an unreasonable restraint of trade.

24. *See U.S. v. Hutcheson*, 312 U.S. 219 (1941), *Allen Bradley Co. v. Local Union No. 3*, 325 U.S. 797 (1945), *Meat Cutters v. Jewel Tea Co.*, 381 U.S. 676 (1965), *United Mine Workers of America v. Pennington*, 381 U.S. 657 (1965), *Connell Construction Co. v. Plumbers & Steamfitters*, 421 U.S. 616 (1975), and *Smith v. Pro-Football*, 420 F. Supp. 738 (1976).
25. See *Meat Cutters,* 381 U.S. at 689-90, which states in substance that a restriction related to wages, hours, or working conditions which is obtained through good faith bargaining between the parties is protected from national labor policy and therefore exempt from the Sherman Act.
26. *In re Detroit Auto Dealers Ass'n, Inc.*, 955 F.2d 457, 463 (1992).
27. *Id*.
28. *Id.*
29. NBA CBA Art. 10, § 5(a).
30. See *Fashion Originator's Guild of America v. Federal Trade Commsision*, 312 U.S. 668, (1941) which held that a boycott of retailers who had used imitated garment designs (which had not been copyrighted) was illegal under antitrust rules. When trying to reconcile antitrust discussion in a commercial sense with antitrust discussion in the context of sports, one should recognize the professional leagues as buyers and the athletes as sellers. By limiting draft eligibility to those whose class has graduated from high school, the NBA has effected a group boycott against all underclass students.
31. *See Mackey v. National Football League,* 543 F.2d 606 (8th Cir. 1976), and *McCourt v. California Sports, Inc.* 600 F.2d 1193, 1203 (6th Cir. 1979).
32. *Mackey,* 543 F.2d at 614.
33. *McCourt,* 600 F.2d at 1203.
34. *Id.*
35. *Id.* at 1202.
36. *Id.* at 1201.
37. *Id.*
38. *Wood v. National Basketball Association*, 809 F.2d 954, 959-60 (2d Cir. 1987).
39. Jeffrey Paul Fuhrman, *Can Discrimination Law Affect the Imposition of a Minimum Age Requirement for Employment in the National Basketball Association?*, 3 U. Pa. J. Lab. & Emp. L. 585, 596 (2001).
40. See *Wood*, 809 F.2d at 959, which states:

> We need not enter this debate or probe the exact contours of the so-called statutory or non-statutory "labor exemptions," however, because no one seriously contends that the antitrust laws may be used to subvert fundamental principles of our federal labor policy as set out in the National Labor Relations Act. 29 U.S.C. §§151-169 (1982). Wood's claim is just such a wholesale subversion of that policy, and it must be rejected out of hand. As a result, whether the draft and salary cap are *per se* violations of the antitrust laws or subject to rule of reason analysis need not be decided.

41. See 29 U.S.C.A. § 151, which states that:

> It is hereby declared to be the policy of the United States to eliminate the causes of certain substantial obstructions to the free flow of commerce and to mitigate and eliminate these obstructions when they have occurred by encouraging the practice and procedure of collective bargaining and by protecting the exercise by workers of full freedom of association, self-organization, and designation of representatives of their own choosing, for the purpose of negotiating the terms and conditions of their employment or other mutual aid or protection.

42. *Wood,* 809 F.2d at 958.
43. *Subjects of Mandatory Collective Bargaining Under Federal Labor Relations Act*, 12 ALR2d 265, (1950).
44. Fuhrman, 3 U. Pa. J. Lab. & Emp. L. at 595.
45. *See Haywood v. National Basketball Ass'n*, 401 U.S. 1204, (1971).
46. *Id.* at 1205.
47. See *Haywood,* 401 U.S. at 1205, which states:

> If Haywood is unable to continue to play professional basketball for Seattle, he will suffer irreparable injury in that a substantial part of his playing career will have been dissipated, his physical condition, skills and coordination will deteriorate from lack of high-level competition, his public acceptance as a super star will diminish to the detriment of his career, his self-esteem and his pride will have been injured and a great injustice will be perpetrated on him.

48. "The Commish's Wish, Stern Wants Limit to Deter Underclassmen" (available at http://www.cnnsi.com/basketball/nba/1999/draft/news.html (last modified June 24, 1999)) cited in Fuhrman at 589.
49. Fuhrman, 3 U. Pa. J. Lab. & Emp. L. at 589.
50. Lang Whitaker, *Player President, Slam,* Vol. 9, No. 6, at 30 (2002).
51. Scott R. Rosner, *Must Kobe Come Out and Play? An Analysis of the Legality of Preventing High School Athletes and College Underclassmen From Entering Professional Sports Drafts*, 8 Seton Hall J. Sport L. 539, 565, which reads:

> To hold that unions may not sacrifice the interests of those outside the bargaining unit in order to advance the interests of its constituents would bring chaos to collective bargaining across all industries and weaken unions, as they would lose a significant amount of leverage in bargaining due to the loss of a valuable chit. While professional sports are unique in many respects, this should not subject the collective bargaining that occurs in this context to a higher standard than other industries.

52. 29 U.S.C.A. § 623.
53. 29 U.S.C.A. § 631.
54. See 42 U.S.C.A. § 6102, which reads:

> Pursuant to regulations prescribed under section 6103 of this title, and except as provided by section 6103(b) and section 6103(c) of this title, no person in the United States shall, on the basis of age, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under, any program or activity receiving Federal financial assistance.

55. Fuhrman, 3 U. Pa. J. Lab. & Emp. L. at 602.
56. *Hamilton v. Caterpillar, Inc.*, 966 F.2d 1226 (7th Cir. 1992).
57. *Id.* at 1227.
58. *Id.*
59. *Id.* at 1228.
60. *See Hulme v. Barrett*, 449 N.W.2d 629 (Iowa 1989).
61. *Id.* at 631.
62. *See Zanni v. Medaphis Physician Services Corp.*, 612 N.W.2d 845, (Michigan 2000), and *Bergen Commercial Bank v. Sisler*, 723 A.2d 944, (New Jersey 1999).
63. *Bergen*, 723 A.2d at 949.
64. *Id.* at 960.
65. *Id.* at 959.
66. NBA.com, *Kobe Bryant, Player Biography* (available at http://www.nba.com/playerfile/kobe_bryant/ bio.html (June 29, 2002)).
67. Bryan B. Woodruff, Note, *Unprotected Until Forty: The Limited Scope of the Age Discrimination in Employment Act of 1967*, 73 Ind. L.J. 1295, 1310 (1998) (which reads, "The experience or maturity of an employee or potential employee can be a bona fide occupational qualification. . . . Saying that a person is not experienced or mature enough, when experience or maturity is a bona fide occupational qualification, does not necessarily constitute unjust discrimination.").
68. U.S.C.A. Const. Amend. XIV, § 1.
69. *Behagen v. Amateur Basketball Ass'n of U.S.*, 884 F.2d 524, 530 (10th Cir. 1989).
70. *Ludtke and Time, Inc. v. Kuhn*, 461 F. Supp 86, (New York 1978).
71. *Id.* at 93-96.
72. *Jackson v. Statler Foundation*, 496 F. 2d 623, (2d Cir. 1974).
73. *Id.* at 629.
74. *Personal Exemptions and Individual Income Tax Rates, 1913-2002*, (available at http://www.irs.gov/pub/irs-soi/02inpetr.pdf).
75. *Stevens v. New York Racing Ass'n, Inc.*, 665 F. Supp 164 (E.D.N.Y. 1987).
76. *Id.*
77. *Sprewell v. Golden State Warriors*, 199 WL 179682 (N.D. Cal. 1999).
78. *Id.*
79. *Shelley v. Kramer*, 334 U.S. 1 (1948).
80. *Id.* at 4-5.
81. *Id.* at 13-14.
82. *NBA CBA, Art. XXXI, § 1(a).*
83. Andy Katz, *Caracter, 14, arrives ahead of schedule*, (available at katz_andy/1404269.html, (last updated July 12, 2002).
84. *Slam* Vol. 9 No. 6 (2002).
85. *See* Whitaker, *supra* note 10.
86. NBA CBA Art. 8, § 1(c).
87. *Hamilton,* 966 F.2d at 1227.

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Defining Artists' Rights and Alternatives: Ownership of the Creative Message

By Damien Granderson (Law Student Initiative Winner)

Recording artists are challenging their long-term exclusive recording agreements with their respective record companies. While artists have valid justifications for their arguments of indentured servitude, there are preventative measures available that can maximize their economic return and assist in realizing their dreams.

The Exclusive Recording Agreement

A record company's most valuable assets are its artists and the copyrights they create. Signing a new artist is a business decision that involves the commitment of substantial expenditures, not only in the form of royalty advances to cover recording, but also the costs of manufacturing, promotion, and tour support. On estimate, a record company spends a minimum of $500,000 signing a new act, and this figure does not include extra promotional efforts or hours put in by staff.[1] In light of this expense, the company wants to be sure it is dealing with an artist capable of recouping its investment and earning a profit. For these reasons, a record company will zealously protect its interests when securing a recording agreement.

Generally, the recording contract is an exclusive personal service agreement whereby the artist furnishes master recordings embodying unique vocals and musical performances to the record company. In turn, the label has the exclusive right to manufacture, promote, and market these records to the public and to pay the artist a royalty on the records sold. The royalty range for a new act is generally around 7 to 12 percent of the suggested retail price for domestic sales and less for international sales.[2] Established acts can command 12 to 16 percent and some superstars are able to get as much as 20 percent.[3] Deductions which substantially reduce the amount of money the artist will actually receive include: Packaging deductions, excise taxes, free goods, reserves for returns, royalty reductions, recording costs, advance against royalties, cross-collateralization and producers' royalties. Labels often sign artists to lengthy contracts to protect their investments and to keep successful artists from signing with competing companies.

Resulting Inequities

The recording contract is strictly a business relationship. In theory, contracting parties should have equal leverage, but realistically, the artist lacks the bargaining power to level the playing field. Under a "standard" industry contract, the artist will typically be obligated to deliver up to seven albums, which can take over 15 years to satisfy. Under such contracts, labels avoid concrete obligations to release, market or promote the artists or their recordings. Moreover, many labels—to their benefit—utilize arcane and antiquated accounting provisions, which lead to unconscionable results.[4]

It is illogical for an artist to enter into a contract yielding limited financial return, but this is often the reality of a record deal for aspiring artists. The label's ability to provide exposure necessary to launch a career provides it a strong negotiating position, dissolving the "bargaining" in a bargained-for agreement. As a result, artists' choices have been limited when signing with record companies. Due to the hardships experienced under these long-term deals, artists have sought changes that will level the playing field and afford them better protection.

Seven-Year Statute[5]

California Labor Code § 2855 states: "(a) Except as otherwise provided in subdivision (b), a contract to render personal service . . . may not be enforced against the employee beyond seven years from commencement of service under it."[6] The California legislature enacted this seven-year limitation on all forms of personal service contracts to prevent exploitative practices of binding new acting talent to long contracts. This practice was typical in early Hollywood days where movie studios marketed movies by over-promoting actors to increase box office revenues. To recoup their promotional expenditures, movie studios would bind new talent to contracts exceeding ten years with salaries below market value.[7] In *de Haviland v. Warner Brothers Pictures*,[8] the court held that the maximum amount of time an agreement for personal service could last was seven calendar years, not seven years of service. The court, in construing section 2855, dismissed the producer's claim that it was appropriate to extend the actress' contract beyond seven years to make up for non-performance during their agreement.

In response to the protection afforded to artists, record companies lobbied to add subdivision (b) to section 2855, which became known as the recording artist exception:

Notwithstanding subdivision (a):

(1) Any employee who is a party to a contract to render personal service in the production of phonorecords in which sounds are first fixed . . . may not invoke the provisions of subdivision (a) without first giving written notice to the employer.

* * *

(3) In the event a party to such contract is . . . required to render personal service in production of a specified quantity of the phonorecords and fails to render all of the required service . . . the party damaged by the failure shall have the right to recover damages for each phonorecord as to which that party has failed to render service.[9]

Essentially, if an artist is signed to a recording contract but cannot produce the required number of albums to the record company's satisfaction in the seven-year period of time and wants to withdraw from the contract, the record company can sue for damages for uncompleted albums. At best, because of this threat of damages, artists are forced to renegotiate with their labels. Courtney Love, Don Henley[10] and Metallica[11] are just a few of the artists that have challenged this exception, only to eventually settle out of court.

In September 2001, the Los Angeles Superior Court allowed Courtney Love to proceed with a claim against her former record label challenging section 2855(b). A ruling against section 2855(b) would set a precedent because it would allow artists who are unhappy with their long-term recording agreements to abandon them and explore alternatives for getting their music to the public.

Love was disappointed with DGC's promotion for her last album *Celebrity Skin* and refused to record the five remaining albums under contract. The company sued Love under section 2855(b) claiming breach of contract.[12] DGC's parent company, Universal Music Group (UMG), sought expensive damages and a negative injunction. Love counter-sued, arguing the requested release would in effect be indentured servitude, forcing her to serve the label until the contracted albums were delivered.[13] Arguing that any profits under a new agreement would be given to the old company through speculative damages, Love contended that the artist exception frustrates the legislative purpose behind section 2855(a) because artists are forced to serve the record company beyond seven years.[14] She further argued that the exception violates equal protection by imposing contractual liability on recording artists while protecting other similarly situated entertainers. Although Love eventually settled out of court, Judge Wasserman ruled that she could seek declaratory relief that section 2855(b) was unconstitutional in practice and that it calculates lost profits too speculatively.[15] Love's case placed the spotlight on the recording industry's practices and prompted those affected to lobby for their respective interests.

The Movement for Artist Rights

Negotiations to resolve differences between artists and labels have generally been unsuccessful. Despite the $41 billion grossed by record companies in 2000, they contend that section 2855(b) is necessary to justify the millions of dollars invested to promote and develop new artists who end up being unprofitable.[16] They further argue that established artists would be intentionally unproductive during the term of their respective agreements and later claim that the contracts had expired after seven years. Despite this contention, one industry executive estimated $950,000 in costs for launching an artist who eventually went platinum.[17] The label recouped $450,000 from the artist's royalties and received income in the amount $3,500,000 ($3.50 per unit for one million units).[18]

The co-founder of Recording Artists Coalition (RAC), Don Henley, stated, "[n]egotiations [between the industry and the artists] are over,"[19] indicating the next step for the artists is to seek straight repeal under the proposed State Bill 1246.[20] The Recording Industry Association of America (RIAA) represents record companies and conceded some points, including the reduction of the number of albums for which damages are recoverable.[21] However, the RIAA refused to concede retroactivity because "contracts [ ] have been negotiated, advances [ ] have been paid by the terms of the current law, and to say the contracts are retroactive would give current artists the benefits of all the new limits on damages, but the record companies would get no advantages. You can't change the rules of the game in the middle."[22]

California Senator Kevin Murray, who introduced State Bill 1246, retracted the version proposed in January 2002 for a more comprehensive legislative package to be introduced that will include the seven-year repeal bill, artists' health care and pension benefits and stringent measures imposed on record companies' accounting practices.[23] Murray and RAC's co-counsel Jay Cooper believe they "were gaining momentum," but introduction of the more comprehensive package would be more attractive because they were uncertain whether they had enough votes to pass the bill in its current form.[24] Artist Don Henley, who has recorded for half-adozen labels in his 35 years in music, stated, "[i]f a company wants long-term stability from an artist then the company ought to be able to [guarantee] some stability to the artist."[25] Keeping artists under contract for an indefinite amount of time does not permit the acts to realize their true market value. "Once every seven years, an artist should be able to go into the marketplace and get his full worth."[26] The RIAA countered the accusation that artists are kept out of the studio, saying that many choose to seek film and television work that limits the time they spend on their music.

In October 2002, New York State Assembly Speaker Sheldon Silver, Assemblyman Roger Green, the Artist Empowerment Coalition (AEC) and L. Londell McMillian proposed legislation, known as the "Artistic Freedom Act," which would limit the length of recording contracts and give unrepresented artists the right to terminate at the end of three years and represented artists termination rights after seven years. Supporters' arguments are similar to California lobbyists', indicating "[l]ocking aspiring artists into exclusive contracts that can last for decades creates a situation where these individuals or groups are exploited and taken advantage of for their entire music-making careers . . . these contracts are not only inherently unfair, they also curb artistic expression."[27] McMillian adds, "In too many instances, artists have been creatively and financially abused due to contracts of unfair and long-term servitude. It is time for a business model in the music industry that places a fiduciary duty on record labels as well as reasonable limits to long-term recording contracts."[28]

Ownership Alternatives vs. Exclusive Recording Contract

Artists' Copyright Ownership

Licensing Agreement

Typically, a record company will own all the rights, including the copyright, to the master recordings of its signed artists. Insightful attorneys representing artists will negotiate a transfer of masters ownership to the artist upon contract expiration. Generally, due to potential profits of back catalogs, companies are hesitant to relinquish ownership of masters. Artists that wish to avoid problems associated with recording contracts and want to maintain ownership and control over their masters should try to enter into licensing agreements with record companies.

Assuming the artists have a valid copyright in their masters, they can sell some or all of their exclusive rights to the company for a limited period of time. The label would then be authorized to sell and distribute the masters, but not to assign these rights.

Ray Charles exercised this approach in his licensing deal with ABC-Paramount. In 1959, after several successful years at Atlantic Records, Charles requested that his masters revert back to his ownership. He subsequently licensed his masters to Dunhill Compact Classics and to Rhino Records, who specialize in reissue material. Charles asserted, "It comes down to music I've worked hard to create, and I want to own it myself."[29]

Joint Venture Agreement[30]

In a joint venture agreement, the artist forms a production entity and then enters into a "partnership" with the distributing record company. Both parties place all income into a common fund, from which they eventually deduct all expenses and ultimately will equally split the remaining proceeds. This option is only available to artists who have the resources to support their end of the financial obligations. Furthermore, only commercially successful products will reap the long-term per-unit profits associated with a joint venture arrangement. Thus, an artist with a moderate to unsuccessful product would fare better under a royalty agreement, because in that situation, the record company would absorb all of the initial costs, instead of sharing them in the joint venture.

The artist KRS-One, under his production entity Front Page Recordings, entered into a joint venture agreement with Koch Entertainment/In the Paint, in which he retained partial ownership of his masters, allowing Koch to distribute and market his albums. This agreement has given KRS-One the support and control over his musical content, transitioning from hard core to gospel rap. Master P and Cash Money Millionaires also exemplify a trend among contemporary artists who develop a substantial market for their music prior to entering a joint venture agreement with a major label.

Pressing and Distribution Deal[31]

A pressing and distribution agreement ("P&D deal") is an alternative available for artists with enough financial resources to gain more control over their music and to receive a higher profit margin if the venture is successful. Under a P&D deal, the artist forms a production company and relies upon profit participation instead of a royalty in its agreement with the record company. Essentially the artist will sell the records to the distributing company for a wholesale price less a negotiated distribution fee, which is akin to a royalty, and will cover the distribution company's overhead, operations and profit. From this amount, the production company pays manufacturing, mechanical royalties, artist royalties, promotion, overhead, salaries and pressing royalties.

A drawback to a P&D deal is that the distribution companies do not usually provide support in terms of accounting, promotion or marketing. In addition, the deal may potentially be affected by the distribution company's bias toward its own products.[32]

Curtis Mayfield utilized a P&D arrangement at a time when "it was unheard of for a performer/songwriter to own his [ ] publishing, let alone his masters."[33] A material point of the deal was that Mayfield would retain ownership in his masters. Ultimately, after Mayfield's death in 1999, his business foresight materialized into The Mayfield Family Trust. His widow is the immediate beneficiary and owns the foreign rights to his work. "It was important to Curtis to own as much of himself as he could," which is why he entered into this type of deal.[34]

Artist Options When Bound to an Exclusive Recording Agreement

Buy-back Copyrights

With the increasingly vital role that catalogs play in contributing to record companies' bottom lines, in the future all artists could face even tougher battles when trying to reclaim or negotiate ownership of their masters. Entertainment attorney L. Londell McMillian notes that "buy-back of masters is something that's not normally going to happen."[35]

However, there are a few instances where an artist has been successful in regaining possession of his master recordings. For example, Warner Brothers owned Al Jarreau's masters for his first six albums but after that, he was allowed to "split up the deal," also signing with WEA International, where he has a huge audience. These albums are now licensed to Universal outside the U.S., with Jarreau maintaining international rights. "It's an annuity . . . [t]hey put the records out, he gets paid, and he still owns them. It's great for any artist when he or she can get some control of their life."[36]

A new paradigm in the artist-label relationship will be introduced in 2013. Artists who recorded material after January 1, 1978 will become eligible to reclaim their masters. (However, artists who registered their recordings between 1972 and 1978 must wait a total of 56 years, starting from 1972, to be able to reclaim theirs.)[37] Unfortunately, artists who recorded prior to 1972 are not eligible to reclaim their masters, as no sound recording copyright existed prior to that year.[38]

Re-Recording to Obtain Copyright Ownership

When artists are unsuccessful in securing their original masters from a label, they may have the option of re-recording their original music to obtain copyright of the new recording—usually after the commercial peak of the recording. One caveat to this approach, in addition to the financial costs associated with re-recording, is that most exclusive recording agreements provide some variation of the following unconscionable re-recording restriction clause:

> Artist shall not perform any selection recorded hereunder or embodied on a master delivered hereunder . . . (i) for a period of *five (5) years after the date of delivery* of the respective master containing such selection or (ii) for a period of *two (2) years after the expiration or other termination of this Agreement, whichever is later*.[39]

Conclusion

Despite the increasing sophistication of artists, many never come to terms with the fact that entertainment is a mix of art and business, but mostly business. In order for an act to expand artistically or to become an entertainment entrepreneur, it must educate and familiarize itself with the realities and alternatives in the music industry. In our country where artists' images are worshipped, words are memorialized and personal lives scrutinized, how is allowing a third party to capitalize creativity without affording artists their just deserts justified? Essentially, the issue is not one of money but of merit, the receipt of due. In the end, as it was to Curtis Mayfield, it is important to each individual to "own as much of" ourselves as we can.

Endnotes

1. *See* Xavier M. Frascogna, Jr. and H. Lee Hetherington, The Business of Artist Management 130 (1997).
2. *See* William Krasilovsky and Sidney Shemel, This Business of Music: The definitive guide to the music industry 19 (8th ed. 2000).
3. *See id*.
4. *See* press release: Artist Empowerment Coalition ("AEC") Strikes A Chord For Artists' Rights in NY Legislature (Oct. 30, 2002) available at http://www.artistempowerment.com/events.htm.
5. Cal. Lab. Code § 2855 (2002).
6. *Id*. at section 2855(b).
7. *See* Donald E. Biederman, et al., Law and Business of the Entertainment Industries 78 (4th ed. 2001).
8. 153 P.2d 983, 986 (Cal. Ct. App. 1944).
9. Cal. Lab. Code § 2855(b).
10. *Geffen Records, Inc. v. Henley*, No. BC073696 (Cal. Super. Ct. 1994).
11. *We're Only In It For the Music v. Elektra Entertainment,* No. 9644007 (Cal. Super. Ct. 1996).
12. *Geffen Records, Inc. v. Courtney Love*, No. BC223364 (Cal. Super. Ct. 2001).

13. *See id*.
14. *See id*. at 5.
15. *See* Courtney Love, *Courtney Love Does the Math* (June 14, 2000), at http://www.salon.com/tech/feature/2000/06/14/love.
16. *See* Anthony York, *Courtney Love's Big Sacramento Adventure* (Sept. 6, 2001) *available at* http://www.businessweek.com/magazine/content.
17. *See* Letter from Confidential Contact, Label GM to Damien G. Granderson (Dec. 15, 2002).
18. *See id*.
19. Melinda Newman, *Impasse In '7-Year' Talks,* Billboard Bull. (Aug. 9, 2002).
20. *See id.*
21. *See id.*
22. *Id*.
23. *See* Melinda Newman, *Senator Withdraws Bill To Repeal 'Seven-Year Statute,'* Billboard Bull. 1 (Aug. 16, 2002).
24. *See id.*
25. Melinda Newman, *Label, Artists Spar over Labor Code*, Hollywood Rep., *available at http:*//www.aftra.com/resources.
26. *Id*.
27. Artist Empowerment Coalition ("AEC") Strikes A Chord For Artists' Rights in NY Legislature (Oct. 30, 2002) *available at* http://www.artistempowerment.com/events.htm.
28. *Id*.
29. Gail Mitchell, *Black Artist Struggle To Regain Ownership of Master Recordings*, 2 Billboard (Mar. 2, 2002).
30. *See* Donald Passman, All You Need to Know About the Music Business, 200 (2000).
31. *See id.* at 203-204.
32. *See id.*
33. Mitchell, *Black Artist Struggle To Regain Ownership of Master Recordings*, 2 Billboard (Mar. 2, 2002).
34. *Id.*
35. *Id.*
36. *Id.*
37. Mitchell, *Black Artist Struggle To Regain Ownership of Master Recordings*, 2 Billboard (Mar. 2, 2002).
38. *See id.*
39. John P. Kellogg, Take Care of Your Music Business 74 (2000) (providing a sample exclusive recording artist contract).

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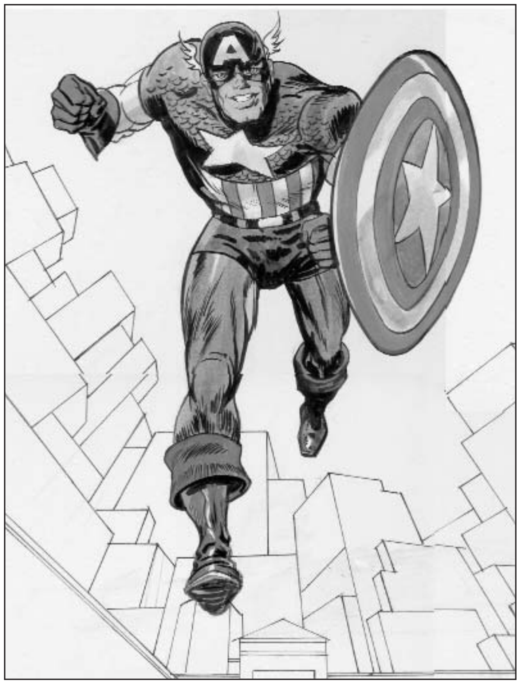
Whose Right Is It Anyway? Captain America Smashes Through to Preserve an Author's Right to Terminate a Copyright Grant Notwithstanding a Retroactive Work for Hire Agreement

By Ross J. Charap and Faith Wu

The year was 1940. The Nazi war machine had overrun much of Europe and the battle for control of the skies over Britain had begun. America was still more than a year from entry into the war, but most Americans despised Hitler as the greatest villain the world had ever known. Among them was Joe Simon, a young cartoonist who was carving a niche in the then brand-new medium of comic books.[1] Simon decided to start his own private war with Hitler by making Der Führer the villain of a new comic book series, *Captain America*. Simon's hero, Steve Rogers, was a buck private who was transformed from a skinny weakling into a superhero by means of an experimental serum. As Captain America, he has fought the enemies of our nation for over 60 years. Now, the United States Court of Appeals for the Second Circuit has decided Captain America's latest battle, *Marvel Characters, Inc. v. Joseph H. Simon*,[2] in favor of "Cap's" creator.



Background

Pursuant to the provisions of the 1976 Copyright Act, an author (or his statutorily named heirs) of works, other than works for hire, may terminate original grants (other than by will) of copyright at the end of 56 years from the date copyright was originally secured and enjoy the fruits of his labor for the so-called extended renewal term.[3] In 1999, Simon did just that, terminating his 1940 grant of copyright to Marvel Comics and reclaiming copyright for the *extended* renewal term. Marvel rejected the termination, filed a declaratory judgment action and invoked a 30-year old settlement agreement resolving litigation over the *renewal* term in which Simon acknowledged that he had created Captain America as an employee for hire. Simon denied that Captain America was a work for hire and sought to disavow the settlement agreement as an ineffective "agreement to the contrary" under 17 U.S.C. § 304(c)(5).

The district court granted Marvel's motion for summary judgment, but the Second Circuit reversed, finding that Simon's work for hire status was still an issue of material fact. Specifically, the Second Circuit issued the judicial equivalent of the poker rule, "the cards call themselves," that is, that parties may not agree *retroactively* that a work was made for hire. Such an agreement may be disavowed as an "agreement to the contrary" for purposes of termination.[4] This decision is likely to have far-reaching effects for all creators of copyrighted material. It will restrain those who exploit copyrighted works and possess economic leverage from forcing authors to agree by contract that they had created works made for hire when they had not.

POW!—Cap Goes to War

Simon was a natural for the comic book business. He had been a professional artist since high school, was a devotee of pulp fiction and science fiction and had enjoyed successful stints as a sports cartoonist and columnist for the Hearst papers in Rochester and Syracuse. After he came to New York City in 1939, he soon became obsessed with comic books. During the day, he served as an editor for Fox Publications, a leading comic book publisher. In the evening and on weekends, he and a group of freelancers he hired churned out story after story. Simon shopped these works to comic book publishers through a middleman, Funnies Incorporated. Simon sold many stories through Funnies, including his first big success, *Blue Bolt*.

As war raged in Europe, Simon hit upon the idea of making Adolf Hitler a figure of ridicule by featuring the hated dictator and his heinous henchmen as the principal villains in a new comic book. But who was to protect America from these dastardly evildoers? Inspired by Hitler's villainy, Simon created Captain America.

Simon believed that Captain America was a surefire commercial property. He decided to bypass Funnies and shop his creation himself. The property was turned down by Fox and others, but Martin Goodman of Timely Comics was so impressed that he agreed to feature Cap in a comic book of his own. Simon orally assigned his interest to Timely for a per-page fee and a piece of the profits, and the first issue was published and copyrighted in December 1940 by Timely. It was a tremendous success, with more than a million copies sold.[5] Simon and his assistants, including the legendary comic book creator Jack Kirby,[6] created the second through tenth issues of Captain America as freelancers before Simon ("stiffed" by Timely on the profits) and Kirby left to work for DC Comics. Since 1941, Simon has received but a few thousand dollars for his iconic creation.

BAM!—The Fight for Renewal

As the renewal term for Captain America approached, Simon decided to reclaim copyright in his work. He reasoned that he had merely assigned first publication rights to Timely for the first 28-year term under the 1909 Copyright Act and should have been able to recapture the copyright for the 28-year renewal term.[7] To that end, Simon commenced a two-front war in separate lawsuits against Martin Goodman and others.

Simon sought a declaratory judgment that he had the sole right to claim the renewal term in Captain America in the Southern District of New York. Earlier, in a New York state court action, Simon sought an accounting, damages and injunctive relief, claiming that Goodman had misappropriated his state law property rights.

The battle raged for three years. By 1969, Simon, short of men and material, was forced to settle. In the settlement agreement, promulgated by Marvel, Simon first assigned "any and all right, title and interest he may have or control or which he has had or controlled in [the works] (without warranty that he has had or controlled any such right, title or interest) . . . "[8] to Goodman. However, Simon was also forced to acknowledge that all of his work on Captain America "was done as an employee for hire of the Goodmans."[9] Although this was untrue, Simon saw no harm in agreeing to sign—he was giving up the renewal term for a cash payment and, at the time, there were no other rights to assert in his work. The parties ceased fire and filed stipulations of dismissal with prejudice.

WAK!—The Final Battle?

For 30 years, it was all quiet on the comic front. Then, in 1999, while surfing the Internet, Simon, now 86 years old, read about the efforts of the heirs of Jerry Siegel, one of the creators of Superman, to recapture copyright in that work for the extended renewal term. Simon soon learned that seven years after the settlement of his renewal war, Congress had revised the copyright law in the Copyright Act of 1976. An important provision of the new Act added 19 years to the renewal term of copyright[10] and permitted authors or their statutory heirs, except in the case of works for hire and transfers by will, to terminate the rights of an original grantee and its successor-in-interest.[11]

Simon was thrilled to have another opportunity to reclaim Cap. In December 1999, pursuant to § 304(c), Simon filed notice with the Copyright Office to terminate his transfer of the copyright in Captain America to Marvel and its predecessor, Timely. Marvel's bellicose response was to file suit in the Southern District of New York seeking a declaratory judgment that the termination notice was invalid and that it was the sole owner of the copyright.[12] Simon counterclaimed, seeking a declaratory judgment that he was the sole author of the work, that the termination notice was valid and that the copyright in Captain America reverted to him on the effective date of the termination notice.[13]

After a year of discovery, Marvel moved for summary judgment, arguing that under the doctrines of res judicata (claim preclusion) and equitable estoppel (issue preclusion), and basic principles of contract law, Simon could not terminate because he had acknowledged in the settlement agreement that he was an employee for hire.[14] Simon's opposition to the summary judgment motion was grounded in the statutory declaration that terminations could be effected "notwithstanding any agreement to the contrary."[15] Because Simon denied that he had been an employee for hire, he contended that the 1969 settlement agreement was just such an "agreement to the contrary," which he could disavow for purposes of termination.

Judge Casey of the district court found that the plain language of § 304(c) did not permit equitable considerations, and that the application of equitable estoppel to this case would contravene Congress' intent to permit authors a fresh opportunity to benefit from ownership of their works.[16] The court further held that Simon's claim was not barred by *res judicata* because the 1969 actions could not have resolved the question of whether Simon was entitled to termination rights—a new and separate right from Simon's previous claim to the renewal term that did not exist at the time of the earlier actions.[17] Judge Casey also rejected Marvel's collateral estoppel argument, noting that the issue of authorship had not been fully and fairly litigated in the prior actions—the parties had filed only bare-boned stipulations of dismissal.[18] Yet, having disposed of all of these arguments, the district court still granted summary judgment to Marvel. Judge Casey found that, in the

1969 agreement, Simon had explicitly acknowledged creating a work for hire and was thus barred from exercising termination rights.[19] Oddly, the district court made no mention whatsoever of the critical "notwithstanding any agreement to the contrary" language of § 304(c)(5).

On appeal, Marvel continued to argue that there was no difference between the authorship issue raised in the previous actions and the termination right Simon was seeking in this case.[20] Simon argued that the district court was mistaken: The authorship issue had not been fully and fairly litigated in the previous actions or disposed of by the 1969 settlement agreement and, therefore, should be sent to a jury for determination.[21]

The Second Circuit found for Simon on all issues. With respect to *res judicata*, the court found that the 1969 stipulations and dismissals with prejudice served only as a final judgment on the competing claims to the *renewal* term, and not the *extended* renewal term.[22] First, the Second Circuit noted that the termination right did not exist until 1978; therefore, the 1969 judgments could not address or extinguish claims that did not exist.[23] Moreover, the courts in the prior actions could not reward the requested relief in the instant action—the right to terminate the grant to Marvel and to recapture the copyright in the extended renewal term.[24]

As for Marvel's collateral estoppel argument, the Second Circuit reasoned that "a stipulation of settlement unaccompanied by findings of fact . . . does not bind parties on any issue . . . which might arise in connection with another cause of action."[25] Here the stipulations did not include any specifics about the authorship issue in the settlement agreement. Thus, the issue of authorship—who actually created Captain America and under what circumstances—was not fully litigated in the 1969 actions. For these reasons, the court determined that Simon was not precluded from claiming that he is the author of Captain America for purposes of exercising his rights under § 304(c).[26]

Having concluded that Simon could assert that he is the author of *Captain America* in order to exercise his termination right, Judge McLaughlin, speaking for the court, addressed the issue of first impression in this case: Whether an agreement in which parties retroactively agree that a work was made for hire constitutes an ineffective "agreement to the contrary," which may be disavowed for termination purposes. The Second Circuit held that such an agreement was an "agreement to the contrary" under § 304(c)(5).[27] Therefore, Simon was not bound by the 1969 settlement agreement and the district court was wrong to rely upon that agreement in granting summary judgment to Marvel.[28]

To reach this conclusion, the court engaged in a lengthy analysis of the legislative intent and purpose of § 304(c), looking first to the language of the statute itself.[29] The termination clause provides in pertinent part:

> In the case of any copyright subsisting in either its first or renewal term on January 1, 1978, other than a copyright in a work made for hire, the exclusive or nonexclusive grant of a transfer or license of the renewal copyright or any right under it, executed before January 1, 1978, by any of the persons designated by subsection (a)(1)(C) of this section, otherwise than by will, is subject to termination under the following conditions:
>
> * * *
>
> (5) Termination of the grant may be effected *notwithstanding any agreement to the contrary*, including an agreement to make a will or to make any future grant.[30]

Judge McLaughlin noted that, generally speaking, the 1969 settlement agreement is an "agreement to the contrary," but found it necessary to go beyond the text of the statute to ascertain the statute's meaning.[31]

The 1909 Copyright Act provided for an initial 28-year term of copyright protection and a 28-year renewal term, which Congress intended to revert back to the author, despite a prior grant or assignment of the initial copyright term. This legislative attempt to return a work to its author after the true value of the work had been established by exploitation in the initial term was thwarted, however, by the Supreme Court's decision in *Fred Fisher Music Co. v. M. Witmark & Sons.*[32] In *Fisher*, which concerned the musical composition, "When Irish Eyes Are Smiling," the Supreme Court held that an author could contract away his right to the renewal term before the right vested at the end of the initial term.[33] With that decision, publishers had a blueprint for circumventing the author's reversionary right. Because of their superior economic bargaining power, publishers were able to compel authors routinely to assign their renewal rights at the same time as they assigned their rights to the initial term.

Congress and the interest groups who participated in the process of copyright revision to enact the 1976 Copyright Act were well aware of this historical backdrop when they negotiated the new termination right. As the Second Circuit noted, the Supreme Court made plain the intent and purpose behind the termination provision of the 1976 Act in *Mills Music v. Snyder*:

> The principal purpose of the amendments in §304 was to provide added benefits to authors. The . . . concept of a termination right itself, was obviously intended to make the rewards for the creativity of authors more substantial. More particularly, the termination right was expressly intended to relieve authors of the consequences of ill-advised and unremunerative grants that had been made before the author had a fair opportunity to appreciate the true value of his work product. That general purpose is plainly defined in the legislative history and, indeed, is fairly inferable from the text of §304 itself.[34]

The Second Circuit also acknowledged that Congress intended to protect authors from unequal bargaining positions.[35] Therefore, Congress made the termination right inalienable—authors must be able to exercise this right "notwithstanding any agreement to the contrary."[36] It follows, the Second Circuit reasoned, that "an agreement made after a work's creation stipulating that the work was created as a work for hire constitutes an 'agreement to the contrary' which can be disavowed pursuant to the statute."[37] Had the Second Circuit ruled otherwise, the legislative intent and purpose of the statute would have been thwarted and, as was the case with *Fred Fisher*, savvy publishers would have had a blueprint for eliminating the termination right.

With this construction of the termination provision, the Second Circuit held that the 1969 settlement agreement was an "agreement to the contrary" and that, therefore, *Simon* was not bound by the statement in the settlement agreement that he created Captain America as an employee for hire. The Second Circuit reversed and remanded, concluding that it was for a jury to determine whether Simon was the author of Captain America with the right to terminate the grant of copyright to Marvel.

It remains to be seen how this decision will impact authors and their publishers. One observer, Kay Murray, General Counsel of the Authors' Guild, an *amicus* in the *Simon* case,[38] notes that the decision preserves one of the few rights accorded to authors under the Copyright Act: "This has been a hard won acknowledgment of the original creator and his 'inalienable' termination right, as determined by the Supreme Court.[39] If the Court of Appeals had not interpreted the [copyright] statute correctly, the decision would have adversely affected creators of popular works for years to come."

As for Simon, he lives on to fight another day so that, as one wag put it, "Cap can come home to Dad."

Endnotes

1. The first true comic book, Action Comics, featuring Superman, appeared in mid-1938.
2. *See Marvel Characters, Inc. v. Joseph H. Simon*, 310 F.3d 280, 2002 U.S. App. LEXIS 23146, 64 U.S.P.Q.2d 1891 (2d Cir. 2002).
3. Termination may be effected within a 5-year window following the 56th anniversary of the original date of copyright so long as notice of termination of at least 2 years and no more than 10 years is given to the original grantee or its successors.
4. *See* 17 U.S.C. § 304.
5. The circumstances surrounding the creation of Captain America are set out in detail in Simon's book, *The Comic Book Makers* (Crestwood 1990). They also inspired the Pulitzer Prize-winning novel, *The Adventures of Kavalier and Clay*, by Michael Chabon.
6. Kirby created the *Incredible Hulk*, *X-Men*, *Silver Surfer* and many other memorable comic book heroes.
7. *See* 17 U.S.C. § 24, repealed by Copyright Act of 1976, 17 U.S.C. §§ 101 *et seq*.
8. *See Declaration of Joseph H. Simon, Exhibit 7: Settlement Agreement between Joseph H. Simon and Martin and Jean Goodman* at 2, *Marvel Characters, Inc. v. Simon*, 2002 U.S. Dist. LEXIS 3260 (2002) (No. 00 Civ. 1393).
9. *See Declaration of Joseph H. Simon, Exhibit 7: Settlement Agreement between Joseph H. Simon and Martin and Jean Goodman* at 7, *Marvel Characters, Inc. v. Simon*, 2002 U.S. Dist. LEXIS 3260 (2002) (No. 00 Civ. 1393).
10. Congress added 20 additional years to the renewal term in the *Sonny Bono Copyright Term Extension Act of 1998*, Pub. L. No. 105-298, 112 Stat. 2827 (1998). Congress also provided for a new termination opportunity—if termination has not been effected at the end of 56 years, it may be effected within the 5-year window commencing on the 75th anniversary of the date of the original copyright with the same notice requirements.
11. *See* 17 U.S.C. §§ 304(b) and 304(c).
12. *See Marvel Characters, Inc. v. Simon*, No. 00 Civ. 1393, 2002 U.S. Dist. LEXIS 3260, 2002 WL 313865, 62 U.S.P.Q.2d 1650 (2002).
13. *See Marvel Characters, Inc.*, 2002 U.S. Dist. LEXIS 3260, at *2. The effective date of termination was December 7, 2001, the 60th anniversary of Pearl Harbor.
14. *See Marvel Characters, Inc.*, 2002 U.S. Dist. LEXIS 3260, at *12.
15. *See* 17 U.S.C. § 304(c)(5).
16. *See Marvel Characters, Inc.*, 2002 U.S. Dist. LEXIS 3260, at *14.
17. *See Marvel Characters, Inc.*, 2002 U.S. Dist. LEXIS 3260, at *20.
18. *See id*.
19. *See Marvel Characters, Inc.*, 2002 U.S. Dist. LEXIS 3260, at *29.
20. *See* 310 F.3d at 286.
21. *See id*.
22. *See* 310 F.3d at 287 (referencing *Nemaizer v. Baker*, 793 F.2d 58, 60-61 (2d Cir. 1986)).
23. *See* 310 F.3d at 287 (citing *Lawlor v. Nat'l Screen Serv. Corp.*, 349 U.S. 322, 328 (1955)).
24. *See id.*; *see, e.g.*, *Leather v. Eyck*, 180 F.3d 420, 425 (2d Cir. 1999); *Burgos v. Hopkins*, 14 F.3d 787, 790 (2d Cir. 1994); *Davidson v. Capuano*, 792 F.2d 275, 278 (2d Cir. 1986).
25. 310 F.3d at 289 (citing *Lawlor*, 349 U.S. at 327); *see also Motrade v. Rizkozaan, Inc.*, 1998 U.S. Dist. LEXIS 2864, No. 95 Civ. 6545, 1998

WL 108013, at *5 (S.D.N.Y. March 11, 1998) ("To have a preclusive effect on specific issues or facts, however, a voluntary dismissal also must be accompanied by specific findings sufficient for a subsequent court to conclude that certain matters were actually decided.").

26. *See* 310 F.3d at 288. The Appellate Court agreed with the district court's analysis and application of *Yoon v. Fordham Univ. Faculty & Admin. Retirement Plan*, 263 F.3d 196, 202 (2d Cir. 2001), to the case at hand. Plaintiff Yoon had previously litigated and defaulted on his state court claim that he was entitled to his teaching salary. Thereafter, Yoon filed a suit in federal court claiming entitlement to pension benefits under ERISA. The Second Circuit found that Yoon could raise the question of salary in order to establish the contractual basis to his pension entitlements. Here, Simon can raise this issue of authorship to claim his termination right; Simon, however, is precluded from claiming any benefits from the initial and renewal terms.

27. *See* 310 F.3d at 292.

28. *See id*.

29. *See* 310 F.3d 280, 290-91 finding support in Nimmer on Copyright:

> The parties to a grant may not agree that a work shall be deemed one made "for hire" in order to avoid the termination provisions if a "for hire" relationship . . . does not in fact exist between them. Such an avoidance device would be contrary to the statutory provision that "termination of the grant may be effected notwithstanding any agreement to the contrary." . . . It is the relationship that in fact exists between the parties, and not their description of that relationship, that is determinative.

3 Melville B. Nimmer & David Nimmer, Nimmer on Copyright § 11.02[A][2] (2000 ed.) (footnote omitted).

30. 17 U.S.C. §§ 304(c) and 304(c)(5) (emphasis added).

31. *See* 310 F.3d at 290.

32. *Fred Fisher Music Co. v. M. Witmark & Sons*, 318 U.S. 643 (1943).

33. *See* 318 U.S. at 657-59.

34. *Mills Music v. Snyder*, 469 U.S. 153, 172-73 (1985) (footnote omitted).

35. *See* H.R. Rep. No. 94-1476, at 124 (1976), reprinted in 1976 U.S.C.C.A.N. 5659, 5740 ("A provision of this sort is needed because of the unequal bargaining position of authors, resulting in part from the impossibility of determining a work's value until it has been exploited."); *see also Mills Music v. Snyder*, 469 U.S. 153, 173 n.39 (1985).

36. *See* 310 F.3d at 290; *accord Stewart v. Abend*, 495 U.S. 207, 230 (1990) (stating "The 1976 Copyright Act provides . . . an inalienable termination right.").

37. 310 F.3d at 290.

38. *See Memorandum Of Amici Curiae,* The Authors Guild, Inc., The American Society of Journalists and Authors, The National Writers Union, Novelist Inc., The Science Fiction and Fantasy Writers Association, The Society of Children's Book Writers and Illustrators and the Text and Academic Authors Association In Support of Defendant Joseph H. Simon ("Memorandum of *Amici Curiae*") at 9, *Marvel Characters, Inc. v. Simon*, 2002 U.S. Dist. LEXIS 3260 (2002) (No. 00 Civ. 1393).

39. *See New York Times Co. v. Tasini*, 533 U.S. 483, 496 n.3, 497 (2001); *see also Stewart v. Abend*, 495 U.S. 207, 230 (1990).

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"Harry Potter and the Order of the Court" Pennsylvania Woman Sanctioned for Bringing Bad Faith Infringement Claims

By Jessie Beeber and Edward Rosenthal

In a recently reported decision, Judge Allen G. Schwartz of the United States District Court for the Southern District of New York granted summary judgment in favor of the author, publisher and licensee of the famous Harry Potter books, against claims of trademark and copyright infringement brought by an unknown author, Nancy Stouffer. He also concluded that Stouffer had submitted altered or fabricated evidence to the court in support of her claims, and assessed $50,000 in sanctions, plus attorneys' fees and costs, against Stouffer. Stouffer is currently appealing the decision to the Second Circuit.

It was the fall of 1999 and the popularity of a fictional boy wizard named Harry Potter was reaching a fever pitch in the United States. Author J.K. Rowling's *Harry Potter and the Chamber of Secrets*, the second installment in the series, had just been published in the U.S. by Scholastic Inc., and was topping the bestseller's list. Fans were eagerly awaiting *Harry Potter and the Prisoner of Azkaban*, the third installment in the series, which was just about to be released. The first book, *Harry Potter and the Sorcerer's Stone* was also a major bestseller, and plans for a feature motion picture were in the works.

By that time, practically any school-age child could recite by heart the particulars of Harry Potter's story—how his wizard parents, James and Lily Potter, were killed by the evil wizard Voldemort shortly after Harry's birth; how Harry survived the attack unscathed except for a signature lightning bolt scar on his forehead; how Harry was raised by "Muggles" (which is what wizards call ordinary humans without magical powers) until his eleventh birthday, when he was invited to attend a wizard boarding school, the Hogwarts School of Witchcraft and Wizardry.

Enter Nancy Stouffer, an unknown author from rural Pennsylvania, with an amazing claim—that Rowling had copied key elements of her stories, including the names Muggles and Harry Potter—from Stouffer's own books. Not only did Stouffer contact Scholastic about her claims, she shopped her books around New York City, hoping to pique a publisher's interest by claiming that J.K. Rowling and Scholastic were infringing her rights. In response, Scholastic, Rowling and Time Warner Entertainment Co., L.P. (the licensee of Rowling's movie and merchandising rights) filed a declaratory judgment action in the Southern District of New York, seeking an order that the Harry Potter books in no way infringed any of Stouffer's rights. Stouffer counterclaimed, asserting among other things violations of her copyrights and common law trademark rights.

A full-scale litigation ensued (in which Stouffer was represented by counsel), with a few things quickly becoming apparent. First, it became clear that Stouffer's works were self-published story, coloring and activity booklets, which, at most, had some limited distribution in the Harrisburg, Pennsylvania area in the 1980s. More importantly, there was absolutely no overlap or possibility of confusion between Stouffer's characters and Rowling's. For instance, Stouffer's "Muggles," as depicted in her booklets, were tiny, post-apocalyptic, hairless creatures with bulbous eyes and potbellies, while Rowling's "Muggles" were ordinary humans. Stouffer claimed that she had a character named "Larry Potter." This alleged character purportedly appeared in a totally different booklet from the "Muggles," and was a boy who was sad because he had to wear eyeglasses. "Larry" had brown or orange hair and glasses with non-circular lenses and speckled brown frames, while Harry Potter was a young orphan boy with black hair, a lightning bolt scar on his forehead, and distinctive eyeglasses with black frames and circular lenses. While "Larry" purportedly appeared in one 11-page booklet, Harry was the central figure of a series of books, each several hundred pages in length, each detailing his fabulous adventures.[1]

On summary judgment, the court ultimately concluded that "the similarities between Stouffer's books and the Harry Potter series are minimal and superficial, and even when considered altogether they could not give rise to a likelihood of confusion . . ."[2] Second, the lawyers began to question the authenticity of the evidence Stouffer had submitted to them and the court as documentation of her creation and use of her characters. After examining Stouffer's evidence, and tracking down the printers, illustrators, salespeople and retail outlets that were allegedly involved in the creation and sale of her works, they found discrepancies that Stouffer could not explain, ultimately leading them to make a motion for sanctions.

For example, in support of her trademark infringement claims, Stouffer produced a copy of an advertisement that allegedly had appeared in *Playthings*, a toy industry magazine, in the 1980s. The advertisement, as submitted to the court, contained the phrase "Muggles™ from RAH™" thus allegedly bolstering Stouffer's claim that she had used "Muggles" as a trademark before the publication of the Harry Potter books. The lawyers, however, visited the Playthings office, examined the actual advertisement as it ran, and discovered that it did not have the "Muggles™ from RAH™" legend on it. The court concluded that even if Stouffer herself had not altered the advertisement, it was incumbent upon her to determine whether it was authentic before submitting it to the court, and representing that it was an advertisement that actually ran.[3]

It was determined, with the aid of a forensic document expert, that several booklets produced by Stouffer that bore the title "The Legend of RAH and the Muggles" had been altered after their original printing, such that their titles were changed from "RAH" to "The Legend of RAH and the Muggles" sometime in the 1990s. The court found that by attaching the altered booklets as exhibits to her counterclaims, and representing that they were created, marketed and sold in the 1980s, Stouffer had committed a fraud on the court.[4]

Stouffer's inability to produce a copy of her "Larry Potter" booklet she claimed to have published in the 1980s was also troubling. She did produce a "printer's proof" as well as two color photocopies, but the forensic expert was able to determine that none of those documents could have been printed prior to 1993. Stouffer could not explain that discrepancy, and the court found that even if the original booklet was created in the early 1990s, then its title page—which contained a copyright date of 1988—was patently false, and Stouffer's knowing submission of photocopies containing such a misrepresentation constituted a fraud on the court.

The court found, by clear and convincing evidence, that Stouffer "had perpetrated a fraud on the court through her submission of fraudulent documents as well as through her untruthful testimony."[5] In assessing a monetary sanction against her for $50,000, it found that Stouffer had "engaged in a pattern of intentional bad faith conduct and failed to correct her fraudulent submissions, even when confronted with evidence undermining the validity of those submissions," and that her "calculated generation of fraudulent documents and testimony undoubtedly imposed burdens on [the Harry Potter parties] by increasing the legal fees and expenses incurred . . . in the investigation and defense of her counterclaims."[6]

In addition, the court awarded the Harry Potter parties statutory attorneys' fees and costs incurred in defending Stouffer's trademark claims. It determined that this was an "exceptional case" under the Lanham Act, finding that Stouffer had "asserted claims and defenses without any reasonable basis in fact or law and . . . attempted to support such claims and defenses with items of evidence that have been created or altered for purposes of this litigation."[7]

This particular Harry Potter story has several important lessons. First, lawyers defending against what appear to be spurious claims of copyright and trademark infringement are well advised to view the claimant's evidence skeptically. Moreover, tools are available, albeit at a cost, to analyze documents and other physical evidence. Amazing things can be learned from analysis of paper stock, glue, printing techniques, ink and other numerous elements of a physical object. Finally, courts are willing, when presented with sufficient evidence, to hold litigants personally responsible for the claims they make and the evidence they submit in court, and will impose serious sanctions for fraud and bad faith conduct.

Endnotes

1. Stouffer's other claims of similarity and the rejection of each are discussed at length in the court's written opinion in *Scholastic Inc. v. Stouffer*, 221 F. Supp. 2d 425, 434-37 (S.D.N.Y. 2002).
2. *Scholastic*, 221 F. Supp. 2d at 437.
3. *Scholastic*, 221 F. Supp. 2d at 440.
4. These are but 3 examples of evidence submitted by Stouffer that the court found was created or altered. For a complete discussion of the court's findings see *Scholastic*, 221 F. Supp. 2d at 439-46 and *Scholastic Inc. v. Stouffer*, 2002 U.S. Dist. LEXIS 21294 (Nov. 1, 2002) (denying Stouffer's motion for reconsideration).
5. *Scholastic*, 221 F. Supp. 2d at 444.
6. *Id*.
7. *Id*.

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Star Struck—What to Do When "It" Hits the Fan for Your Celebrity Client

By Lisa M. Fantino

"Kiddie Porn in Who-ville"

"'Sticky Fingers' Rider Convicted"

"Driver Dunked in Shootout at Hoop Star's Home"

We have all seen the headlines, from civil actions to criminal prosecutions. Stars are not exonerated by virtue of their celebrity, and in fact when trouble hits the fan for them, the whole world knows about it in a very short time. The difficulty for the celebrity's lawyer is not just the litigation at hand, but the posse of handlers that walk in the shadow of the spotlight, often riding the star's coattails for his or her 15 minutes of fame.

The days of "no comment" and "off the record" are long gone. Nearly everything that happens in the world of entertainment is newsworthy outside the courthouse, but the art is in knowing whether it is going to play out in a community newsletter or on the nightly network news. Part of your job as a celebrity lawyer is to make sure that *you* dish the meal *you* want the media to feed upon, because with or without your cooperation, the beast must be fed.

When Is a Case/Story Newsworthy?

"It's news because it's new," says David Bookstaver, Director of Communications for the New York State Office of Court Administration. "You have to ask yourself, what is the new angle and what is the public interest?" Bookstaver himself knows the art of chasing news, as a former photojournalist for both The Associated Press and the *New York Post*, but he readily admits that there is no exact science to determining what may or may not hold interest for the gatekeepers of public information.

Lawyers need to realize how much power the media holds, for it is the reporters, editors and producers who determine just what type and amount of information gets out to the public. Therefore, it is important for attorneys to begin studying how the media thinks. That requires becoming an active radio listener and television viewer, as well as learning to read the newspaper in a different way. It is important to take an active role in assessing which stories were covered and why they were covered on any particular day. The first step should be to read the five main headline stories in depth, analyze why the stories were placed in that order and then, individually, which parts of each story were covered and which parts were omitted.

Question whether the story is "sexy": Does it involve a celebrity or public official; is it a crime of passion; is there a gory crime scene; is there a scandal involved? If the story's "glam" quotient is low, then see if it reaches a high number of people because anything that affects the community at large is newsworthy. Realize, too, that each media outlet has an agenda and mission of its own, and it will be easier to determine whether the liberal or conservative outlet will be more inclined to cover the story.

When It Hits the Fan—Who Should Speak?

When the story's "glam" quotient is high, however, timing a pitch is not crucial to gaining coverage. Star clients create a wake of press with almost every move. If the timing is right, such as a slow news day, a weekend bust or crashing into a politician's car, even an upcoming star can generate significant publicity with just a DUI arrest. The possibilities are endless.

The attorney for these clients is often the last one to know about the trouble, sometimes learning of the event long after the media has gotten wind of it. While most of us need some sleep, the media operates 24/7. Newspapers have longer lead time than do radio and television stations. The deadline for a print reporter is several hours ahead of when a reader may see the newspaper, whereas the deadline may come down to minutes for radio and television reporters, making them much more accessible for breaking news.

So, what's an attorney to do when awakened at 3 a.m. by an artist's manager, a client, or even a reporter? (Yes, they will call regardless of times zones. Take it from someone who tracked down the President of Egypt Air at home, across eight time zones and at least two continents, shortly following the pre-dawn weekend crash of a Boeing 767.)

"As the attorney, you must take control of the case immediately," says noted criminal defense attorney Mel Sachs. "You have to be the captain of the ship, even though the ship is owned by your client. When you accept a case, you also accept responsibility for anything stated to the media; therefore, you as the attorney should be the only spokesperson on behalf of your client."

As an attorney with an entertainment clientele, I have issued directives on more than one occasion to my clients that all media queries or statements made on behalf of the client are to come through my office. While the attorney can suggest and advise what should be done, it is the client's responsibility to then direct his or her managers, agents, publicists and assorted other handlers to refrain from making any public statements on his or her behalf or from giving any information "on background" with regard to a client's legal issues. The attorney may often find that this sits easier with the clients than with their posses, but it is part of the role as an advocate.

Sachs, whose clients have ranged from magician David Copperfield and music impresario Russell Simmons to model Beverly Johnson and the New York Yankees, says that it is part of the attorney's role to safeguard a client's rights, by organizing and supervising everyone even tangentially involved in the client's career when a legal issue is involved. Yeoman efforts must be made to manage and balance all of the egos.

"I have encountered situations where even well-meaning representatives of celebrities do not realize the consequences of their actions in a legal case. Many of the representatives seem to be wearing blinders like the horses that go around Central Park."

Unfortunately, many entertainment lawyers do not take the time to strategize with all of the representatives involved, which can lead to confusion, misinformation and plain old bad press. Veteran music publicist Mitch Schneider has been the spinmaster for artists including Janet Jackson, David Bowie, Staind and Alanis Morissette, but he says that it is a rare occasion when he is asked to take part in a conference with management and lawyers as to how best to respond to media queries. More often than not, he is given a script on what he can and cannot say with regard to a mega-millions deal or a litigation matter.

"The attorneys don't traffic every day in the world of publicity so a proposed statement might look nice on paper, but the publicist might realize that people will see holes in it and it's not the best response," says Schneider. "People need to operate as a team representing the artist, especially in a crisis situation. It sounds so ridiculously pedantic, but it's not always done."

Lawyers are often inaccessible, whether for ethical, scheduling, or comfort-zone reasons, and feel compelled to hire their own outside publicists. Reporters, on the other hand, want the story directly from the source and not a middleman. "I find that the flak isn't even that well-informed and sometimes they're not even able to answer legal types of questions," says Juliet Papa, veteran broadcast journalist for WINS-AM in New York and formerly of WCBS-TV. "I don't know that they do any good and often take on more of preventive than informative role."

It is best if you, as the attorney representing someone whose case has media attention, speak directly to the media on behalf of your client. If your office is screening all media queries, then you can make sure that your client never speaks to the media outside of your presence.

If, however, you do allow your clients to speak to the media, you must carefully monitor what they are saying. If the matter involves litigation, anything the clients say may be used against them as a prior statement, if it is inconsistent with other testimony. You can best prepare your clients by preparing yourself to speak in simple sentences without revealing too much information that may be harmful.

"You never have to answer a reporter's questions the way you must answer an appellate judge's questions directly," Sachs advises. "When the media is asking the questions, you give the answers that you want, because what's ultimately used in the nightly news is what you say."

Giving Reporters What They Want!

Once a story breaks, the challenge becomes protecting the celebrity while satisfying the media. Many attorneys and most publicists often think this can be achieved through a well-crafted press release. What the reporters really want is an articulate, educated spokesperson or an emotionally charged client. Either will sell stories and win an audience.

As for press releases, the mailed ones are old news by the time they reach the editors and producers and the sheer number of faxed releases that come through a newsroom each day makes it impossible for the gatekeepers to sift through and discover what may be usable. This job is often left to interns or young desk assistants who have yet to perfect their instincts for good stories and the press releases generally wind up in the trash.

Schneider, whose experience as a rock journalist aids him daily in his work as one of the industry's leading publicists, says he would never put out a release on an artist's arrest, but may issue a statement if the tabloids are rife with misinformation. "I think at some point you have to recognize that if there are rumors that are just patently untrue, it's better to address them and do some damage control," he suggests. "It can be a simple response, stating the misinformation is totally untrue and stay tuned for more information." One of the worst things, however, is to deny the truthfulness of an accurate but bad report.

When A.J. of the Backstreet Boys had to enter rehab for alcoholism amidst the group's world tour, Schneider advised the group's team to issue a simple statement just declaring the truth. "I figure when the artist gets out of rehab, the artist is going to talk about it anyway because it's part of the healing process and secondly, the tabloids are going to get to it first anyway," he says. "The release just acknowledged A.J's drinking problem and indicated he had the group's support and thanked the fans for their concern and support."

The "team" behind the group took a proactive stand to garner major media attention, having the group interviewed on the "Today" show and MTV (because so many of the Boys' fans are young). They wanted to disseminate the truth as quickly as possible. In doing so, the team's well-orchestrated response beat the tabloids at their own game.

It is also important to note that while an attorney's right to free speech is protected under the First Amendment, it is advisable to consult the client before reaching out to the media. "You shouldn't be sending out press releases unless the client has agreed that this is a matter that you can seek press attention on," says Randolph Scott-McLaughlin, a civil rights attorney and Pace Law School professor.

Scott-McLaughlin has represented many high profile cases and clients, including actor Danny Glover in the media-worthy case of alleged taxi discrimination in New York City, but he notes that there is a fine line between being an advocate and the client's right to privacy. "However, once you enter a public forum, the privacy rights are limited because the papers are in a public courthouse and the reporters can pick them up themselves. So, if the case is going to get attention anyway, it's better for you to help shape public opinion than to let a reporter do it."

Yet presenting certain information to the media may pose ethical issues for attorneys, and leave them facing contempt charges. The local rules for the Southern and Eastern Districts of the U.S. District Court in New York expressly prohibit any statements or release of non-public information that may involve a substantial likelihood that their public dissemination will interfere with a fair trial or otherwise prejudice the due administration of justice, including statements on the existence or contents of any confession or the performance of any examinations or tests or the accused's refusal or failure to submit to any examination or test.[1] In fact, it is comments on such evidence that have found attorneys facing the suspension of their licenses as well as probation.[2]

What an Attorney Should and Should Not Say

While attorneys do not check their free speech rights at the courthouse door, they are held to a higher standard under the First Amendment. Since lawyers have special access to information through discovery and client communications, the U.S. Supreme Court has held that attorneys who represent clients in pending cases may be regulated under a less demanding standard than that established for regulation of the press.[3] The Court held that lawyers' extrajudicial statements may pose a threat to the fairness of a pending proceeding, as such statements are likely to be received as especially authoritative; thus, the First Amendment does not require a state to demonstrate a clear and present danger of actual prejudice or an imminent threat to fair trial before any discipline may be imposed on a lawyer who initiates a pretrial press conference.[4] However, any limitations placed on an attorney by a court may be no greater than necessary to protect the integrity of the judicial system and the defendant's right to a fair trial.[5]

Today's celebrity attorneys often feel compelled to speak to the media because of extensive pre-trial publicity against their clients. "You have prosecutorial offices in criminal cases, who are letting the public know about indictments and since that has become *de rigueur* for the other side, public opinion begins forming very quickly," says Mel Sachs.

Additionally, when a celebrity is arrested the story takes on a new direction, moving from the entertainment and tabloid press to the mainstream, general media. Soon, even old first-grade classmates are coming out of the woodwork making statements on the celebrity's troubled past. Having an advance crisis plan in place will help defray the energy spent on spin control trying to shape the media's views.

The Lawyer's Code of Professional Responsibility, as adopted by the New York State Bar Association, does make it clear, however, that a lawyer should not compensate or give anything of value to representatives of the press, radio, television or other communication medium in anticipation of or in return for professional publicity in a news item.[6] This author doubts, however, whether buying a reporter a latté falls under the rubric of this disciplinary rule, but it would be advisable to refrain from offering reporters a trip on your client's or firm's jet for a vacation in Antigua just to get a headline.

Time to Bring in the Big Guns!

As an entertainment lawyer, your involvement with the media is not any more or less than a criminal defense attorney, but it would behoove you to work on your chops if you are not comfortable being on camera. After all, you are advocating for people who are generally well adapted at "being on" all the time. As a vocal member of your client's team, knowing what to wear, what to say and how to say it is not an instinct but a well-honed skill. In short, the media wants you to speak, and not your flak; therefore it would be advisable to work with a coach on improving your game face. Journeyed reporters, just as lawyers, are quite talented at asking pointed questions and it is up to you to deliver informative responses that satisfy their hunger for the memorable sound bite as something more entertaining and understandable than legalese.

Conclusion

Attorneys need to realize the power in the media and then recognize they hold just as much power in advocating for their clients through the public forum as they do in the courtroom. By keeping it short and simple and avoiding comments as to a client's guilt or innocence or the particulars of a record-breaking deal, an attorney can steer clear of the manholes that may lead one to contempt charges or grievance procedures. Finally, responding to media queries in a thoughtful, respectful manner rather than reacting in a highly charged, emotional way, will ensure that the needs of both sides will still be served.

Endnotes

1. U.S. Dist. Ct. Rules S. & E.D.N.Y., Criminal Rule 23.1(a) & (d).
2. *United States v. Cutler*, 58 F.3d 825 (2d Cir. 1995) (Defendant held in contempt for speaking repeatedly and heatedly to the media on the merits of the government's case against his client.).
3. *Gentile v. State Bar of Nevada*, 501 U.S. 1030, 111 S.Ct. 2720, 115 L.Ed. 2d 888 (1991).
4. *Id.*
5. *United States v. Salameh*, 992 F.2d 445 (2d Cir. 1993).
6. The Lawyer's Code of Professional Responsibility, as adopted by the New York State Bar Association, effective Jan. 1, 1970; as amended June 30, 1999, DR2-101 [§ 1200.6] J.

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Lawyer Assistance Program Can Help Attorneys with Alcoholism and Substance Abuse Problems

Alcoholism and substance abuse are problems that can afflict any member of the bar at any time. Indeed, the percentage of lawyers and judges suffering from alcoholism and drug addiction is significantly greater than the general population. Due to the pervasiveness of the problem in the profession and the devastation suffered not only by the alcoholic or addict but also by his or her family members, partners and clients, in 1978 the NYSBA formed the Committee on Lawyer Alcoholism and Drug Addiction. To help the Committee address the problem, the Lawyer Assistance Program (LAP), headed by Ray Lopez, was created in 1990. Under Ray's direction, the program is on the cutting edge of alcoholism and drug addiction education, intervention and treatment and is nationally respected as one of the leading programs in the field. Despite the great success of the program (over 5,000 referrals in 12 years) there are thousands of lawyers and judges who do not know about the program and what it can do for them. Recently, Patricia K. Bucklin, Executive Director of the NYSBA, asked all Section and Committee Chairs to tell their members about the Committee and what it can do for their members who are struggling with alcohol or substance abuse problems.

Currently there are 68 Committee members and a vast network of volunteers. Most are attorneys and judges of the Supreme Court, County Court, Family Court and Civil Court. The Committee is aided by professional counselors (like Ray Lopez in Albany and Eileen Travis in New York City) and many others serving local bar associations.

The primary functions of the Committee, with Ray Lopez's guidance and direction, are twofold: 1) To assist attorneys, judges and law school students and their families who are suffering from alcoholism, drug abuse, depression and stress-related issues through abuse interventions and planning, sobriety monitoring for appellate courts and disciplinary committees and participation in treatment programs and twelve step groups with attorneys on a local level; and 2) to educate the profession as a whole to detect the warning signs by participating in presentations at law schools, judiciary conferences, disciplinary committees and bar association committees on a statewide and local basis.

One year ago, Chief Justice Judith S. Kaye formed the Lawyer Assistance Trust to study the problems of alcoholism and substance abuse in the legal profession, and to provide assistance to groups addressing these problems. Eight of the Committee's 68 members serve as Trustees.

Information is available to all NYSBA Sections and Committees about outreach concerning attorneys' personal problems with alcohol and drug abuse and possible grants for efforts related to attorney wellness, in the areas of substance abuse, stress management and depression. Committee members would welcome the opportunity to speak at Committee or Section events regarding stress management issues, substance abuse, alcoholism and depression among attorneys.

All services provided by the LAP or Committee members are confidential and protected by Section 499 of the Judiciary Law.

For more information about the Committee, to arrange for a presentation or for a confidential referral of an attorney who you believe has a problem with alcohol, substance abuse, stress management or depression, contact the Lawyer Assistance Program at 1-800-255-0569.

Lawyer Assistance Program:
1-800-255-0569

The Need for Paranoia in Drafting Entertainment Contracts

By Michael L. Baroni

Background

Throughout law school, I interned at a small entertainment law firm. The partners would often give me contracts to review concerning music recording, talent management, book publishing and film production. I would come across seemingly simple terms like "album," "merchandise," "out of print," "television" and "profits." These terms seemed so easy to define; it seemed that everyone, even non-lawyers, had an immediate sense of what these words meant. Yet the more I tried to pin down their definitions, the more they seemed to diffuse into a mist of uncertainty.

For example, does the term music "album" refer to a vinyl record, audio-tape, cassettes, CDs, or all of the above? Does it include music conveyance devices that are not yet invented? Start thinking like that, and more amorphous words and phrases like "multimedia," "electronic rights" and "net profits" can quickly become a morass of ambiguity.

I was deeply troubled by this conundrum. I knew that the meaning of a contract could fluctuate wildly depending on the words one chooses, including how those words are strung together, the context of each word in relation to the words around it, and the exact grammar that strings them all together.[1] One misplaced comma, for instance, can result in an adjective modifying a certain noun, or not—thus drastically altering the plain-English meaning of the contract. That is quite a bit of responsibility for those of us who are drafting contracts that will affect other people's lives.

I was comforted, however, when the partners at the firm told me that my "skepticism" and linguistic "paranoia" would make me a good lawyer. Too many people, they said, take words at face value without rigorously questioning their meaning or without adequately defining their parameters in the contract; the result is a dispute down the road regarding the exact meaning of a given word, phrase, or section in a contract.

One phrase they hammered into my brain, which I will never forget, is "whether now known or hereafter devised." Whenever I drafted a contract which conveyed all rights to a given artistic work, I was taught to always include that phrase, as such: "Artist hereby conveys any and all rights in and to the Work, for use in any and all media *whether now known or hereafter devised.*" This is an essential concept, because "all rights" conveyance contracts are frequently disputed or litigated over when a lucrative new technology enters the arena for the exploitation of artistic content, and the grantor then argues that the new technology was never part of the deal.

Greenfield v. Philles

A recent case, *Greenfield v. Philles Records*,[2] illustrates the importance of paranoia in drafting entertainment contracts. The case held that a conveyance of full copyright ownership in music recordings includes uses in media not yet invented or even contemplated when the contract was executed. The defendant was able to prevail because the contract language was extra explicit regarding the "all rights" conveyance, stating that the plaintiff had all rights to exploit the music, including through "any method now or hereafter known."

In 1963, a music group known as The Ronettes (plaintiffs) signed a contract that conveyed all rights to the group's master recordings to Philles Records (defendants). A few years later, the plaintiffs' group disbanded and the defendant record company went out of business. Twenty years later, however, the defendants started making a substantial amount of money off the recordings by licensing uses for television and film and for granting uses on compilation records.[3] The plaintiffs filed suit, alleging that the contract never conveyed (or even contemplated) those specific uses.

The New York Supreme Court—regardless of the "all rights" conveyance clauses in the contract—granted the plaintiffs $3 million in breach of contract damages, which was affirmed by the Appellate Division. These courts reasoned that although the contract conveyed all rights, it did not "specifically" mention redistribution or licensing for television or film; therefore, the courts held, the defendants did not have those specific rights. (This line of reasoning would effectively invalidate simple "all rights" conveyance clauses, because one would be required to list every single right being conveyed, or else potentially lose claim to any right not being "specifically" listed.)

The Court of Appeals (thankfully, for anyone responsible for drafting contracts) did not agree with the prior courts' reasoning. It stated that the plain language of the contract was unambiguous: It conveyed all rights for any and all uses of the music recordings through any method or means whether then known or thereafter devised. It was irrelevant that the contract did not "specifically" list every conceivable right that was being conveyed, since the words "now or hereafter known" encapsulated any and all future methods of exploiting the music.[4]

As the Court noted, it is a long-held common law principle that, with an unconditional conveyance of all rights, a reservation of rights must be explicitly stated[5] (although this is the exact opposite of what the lower courts held—that the rights being *obtained* had to be explicitly stated). In the absence of a reservation of rights, a grant of all rights will control, and where a contract is unambiguous[6] on its face, the Court said that it would not consider extrinsic evidence of the parties' contractual intent.[7] The contract stands on its own and speaks for itself.[8]

The Court of Appeals did remand the case for an assessment of damages, but not because the plaintiffs had exercised rights they did not have. Rather, the damages resulted from the fact that the defendants never made royalty payments that were due pursuant to the terms of the contract.

Lessons from *Greenfield*

Greenfield highlights just how treacherous entertainment contract drafting can be. Even where the plain-English reading of the contract clearly conveys all rights and clearly covers all uses whether now known or hereafter devised, disputes can still erupt when new methods of exploiting the work enter the equation—sometimes decades later. *Greenfield* should thus inject us all with a healthy dose of drafting paranoia.

When it comes to contracts, laymen often accuse the legal establishment of stating the obvious, being redundant, committing linguistic overkill, or being ludicrously rife with "legalese" instead of writing in simple, plain English. Yet the more informed lawyer knows that one can almost never be too careful, however ridiculously overstated the drafting might appear. As *Greenfield* proves, simply stating that the artist conveys "all rights" to the work is never enough to adequately protect a client's interests; one has to also add that the conveyance covers uses in all media whether "now known or hereafter devised," or some such words to that effect.

It follows, therefore, that where a contract grants less than full ownership, or specifies only certain limited rights, then whatever rights are *not* specified are automatically reserved to the grantor.[9] This is why listing certain rights in an "all rights" conveyance contract can be dangerous, unless one includes the phrase, "including without limitation," before the list of enumerated rights being conveyed. For example, stating: "Artist conveys all rights to the Work, including for use in television and film," is a dispute-prone phrase where the grantor could argue that television and film rights are the only rights that were conveyed. The following phrase would be far more protective of the acquiring party's rights: "Artist conveys all rights to the Work, including without limitation, for use in television and film."

On the flip side, if an artist wishes to reserve certain rights, it is advisable to specifically and unambiguously list each right being reserved.[10] For example: "Artist conveys all electronic rights to Buyer, except that 'electronic rights' shall not include the Internet or digital audio-cassettes."

If the rights being conveyed are limited, such as print copies of a book, then the contract should clearly state that it is the "only" right being conveyed: "Author hereby licenses the limited right to make and distribute print copies only of the Work." It is important to make sure that the "only" is positioned correctly in the sentence so that it modifies the desired term(s) and not some other word or phrase.

Entertainment Contract Danger Zones

There are a few primary drafting danger zones shared by most entertainment contracts. These are the areas over which the drafter/negotiator should have the utmost paranoia in making sure that the contract language reflects the intent and that it protects the client's interest as tightly as possible.

Territory: An entertainment contract should always specify the territory in which the relevant entertainment product can be exploited. It should never be assumed that the territory is the United States; a contract which does not state a territory is likely to be interpreted as having a "worldwide" territory. If the intended territory is limited to the U.S., does that include areas such as U.S. overseas military bases, or is it confined to the "continental U.S." (thus wiping out Hawaii and Alaska)?

Term: The term of a contract, and any renewal thereof, should always be crystal-clear. The basic term should be definitively expressed, such as "five (5) years," or thirty-six (36) months"—but that is not enough. Any contingencies which affect that term, such as when the term starts, options for renewal, or rights to terminate, must be ironed out and planned for in advance.

Payments: Payment issues in entertainment contracts can be incredibly complex, but a lawyer should always try to make sure that the language is as understandable and unambiguous as possible. If an author is to be paid an advance for a novel, for example, the exact dollar amount and payment due date should be clearly stated, in addition to whether or not the payment is "nonrefundable," or what (if anything) the advance is contingent upon (for example, if payment of the advance is contingent upon the editor's "acceptance" of the book, the author might not be too happy when he devotes a year to working on the book, turns it in, and suddenly finds out that the publisher does not have to pay him anything).

Royalties can be wickedly deceiving. A 10 percent royalty off the gross revenues might be far better than a

25 percent royalty off "net profits," for example, because "net profits" may never be realized if the project is not "profitable" (as determined by the acquiring party's accountants). If "net profits" is going to be mentioned anywhere in the contract, you are in for one of the thorniest drafting battles you will ever face in trying to clearly define that term. For instance, does the acquiring party get to deduct office overhead, interest on any money advanced on the project, promotional copies, or advertising from the revenue stream before calculating whether or not a "profit" has been made? If so, the artist might never see a dime in "net profits," even if the project makes millions of dollars. This is how movie studios, for instance, can get away with full-page ads proudly declaring how "Movie X" just grossed $300 million when it cost only one-third of that to make, yet deny payments to any of the "net profit" participants.

Grant of Rights: Try not to allow a simple grant of rights clause where more specificity is needed. For example, if a photographer grants "electronic rights" to his pictures, define exactly what is encompassed by that term. Does that include CDs, the Internet, use in television documentaries and/or digital databases (keep in mind that the "World Wide Web" is different from the more expansive "Internet")?

In addition, carefully define exactly how an artistic work can be used. If you are licensing some magazines for use in a film, for example, it is wise to pin down exactly how they will appear and be used. Otherwise, you could find the magazines being defamed or placed in an undesirable context. (Do you really want an actor using the cover of your client's magazine as a substitute for toilet paper?)

Conclusion

The lesson here is that a healthy dose of paranoia in entertainment contract drafting can often save a client's interests down the road. It is always best to expect the unexpected out of a deal, be skeptical of the other side's motives and intent, and to imagine the world of what-could-go-wrong possibilities. Particularly in the face of a society which tends to scoff at the legal profession's "over-complication" of everything, we as lawyers have to resist the urge to skimp on our writing, where doing so would take away the extra emphasis and clarification that a contract requires and the protection that our client needs. A few additional words added to a contract, like "whether now known or hereafter devised" can make or break a client's future.

Endnotes

1. As an English major who wrote a senior thesis on semantic construction and meaning in poetry, I was particularly preoccupied with these thoughts.
2. *Greenfield v. Philles Records, Inc*., 2002 N.Y. Int. 0118 (Oct. 17, 2002).
3. Defendants' biggest financial windfall came from licensing the famous song *Be My Baby* for use in the motion picture *Dirty Dancing*.
4. It is possible that sympathy played a role in the lower courts' decisions. For instance, when the Ronettes agreed to the original contract, they did not have the advice of counsel, and the agreement form used—a form which took all rights to the music—was of the type widely used by music producers of the era. As more and more producers of that time grew rich, while the artists themselves earned little or nothing, that type of "all rights" form contract came under fire by some as an unconscionable way to rob the artists of the fruits of their creative labors and talents. Thus, when the lower courts granted to the plaintiffs 50% of all income derived from synchronization licenses, it is possible that sympathy for the plaintiffs could have been a motivating factor in making such an award. The Court of Appeals even hinted at such when it reversed the lower courts' decision, by stating: "We realize that our conclusion here effectively prevents plaintiffs from sharing in the profits that defendants have received from synchronization licensing. However sympathetic plaintiffs' plight, we cannot resolve the case on that ground under the guise of contract construction."
5. "The unconditional transfer of ownership rights to a work of art includes the right to use the work in any manner." *Pushman v. New York Graphic Soc.* 287 N.Y. 302, 308 (1942). *See also Boosey & Hawkes Music Publs. Ltd. v. Walt Disney Co.* (145 F.3d 481 [2d Cir 1998]), where the plaintiff granted rights in a certain musical composition to The Walt Disney Company for use in the film *Fantasia*, including the "right, license, privilege and authority to record [the composition] in any manner, medium or form." In spite of this open-ended grant of rights, the plaintiff sued after Disney used the song in video-cassette and laser disc versions of *Fantasia*, arguing that the agreement did not explicitly provide for distribution in these new technological mediums. The United States Court of Appeals for the Second Circuit, however, held that absent any express language to the contrary, Disney had the rights to use the music in those mediums.
6. The Court, quoting from *Breed v. Insurance Co. of N. Am.*, 46 N.Y.2d 351, 355 (1978), *rearg. den*., 46 N.Y.2d 940 (1979) stated that a contract is "unambiguous" if the language has "a definite and precise meaning, unattended by danger of misconception in the purport of the [agreement] itself, and concerning which there is no reasonable basis for a difference of opinion."
7. *See also, R/S Assoc. v. New York Job Dev. Auth*., 98 N.Y.2d 29, 32 (2002); and *W.W.W. Assocs. v. Giancontieri*, 77 N.Y.2d 157, 162 (1990).
8. Quoting from *Slamov v. Del Col*. (79 N.Y.2d 1016, 1018 [1992]), the Court stated, "The best evidence of what parties to a written agreement intend is what they say in their writing."
9. *See e.g., Warner Bros. Pictures v. Columbia Broadcasting Sys.*, 216 F.2d 945, 948 (9th Cir 1954), *cert denied* (1955); *see generally Cohen v. Paramount Pictures Corp.*, 845 F.2d 851 (9th Cir 1988).
10. In *Burnett v. Warner Bros. Pictures*, for example, the plaintiff had made an "all rights" assignment to his play, that was later adapted into the classic movie, *Casablanca*. The Court of Appeals held for the defendant Warner Bros., and stated that if the plaintiff playwright had intended to retain certain rights, then "specific clauses to that effect should have been included in the agreement." (67 N.Y.2d 912 (1986), *aff'g* 113 A.D.2d 710, 712-13 (1st Dep't 1985)).

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Any "Copyright" for Litigants?

By Alan J. Hartnick

Copyright protects expression, but certain matters are exempt from copyright by reason of public policy and therefore are part of the public domain. An example is "the law," in which it is self-evident that the public must have access and the right to know. As stated in the recent *Veeck* case, "'the law,' whether articulated in judicial opinions or legislative acts or ordinances, is in the public domain and thus not amenable to copyright."[1]

Litigation involves expression. Briefs are expressive speech. Can one copyright a brief? Certainly a brief is an "original work of authorship," but who owns the brief—the client or the lawyer? Most lawyers would believe that a brief is part of the public domain and would not object to use by others. After all, courts require legal papers in order to function.

As to such practice, Professor Stephen R. Barnett of the University of California's Boalt Hall School of Law has placed a copyright notice on his court filings.[2] Professor Barnett states: "When you file a brief, you dedicate it to the public for use in litigation. There is a tradition of copying the briefs freely."

Litigation involves, among other things, the trial, arguments, briefs, witnesses, motions and various documents obtained through discovery—some of which documents are used in the trial. As to certain documents, an order of protection[3] may be sought, thereby restricting access to such documents.

Protective orders can be long and detailed. Often they contain the following language:

> If CONFIDENTIAL or HIGHLY CONFIDENTIAL materials are to be filed with the Court in connection with any proceedings herein, they shall be filed with the Clerk of the Court in sealed envelopes prominently marked with the caption of the case and the following notice:
>
> > THIS ENVELOPE CONTAINS CONFIDENTIAL DOCUMENTS SUBJECT TO A PROTECTIVE ORDER AND IS NOT TO BE OPENED NOR THE CONTENTS THEREOF TO BE DISPLAYED OR REVEALED EXCEPT AS DIRECTED BY THE COURT.
>
> The Clerk of the Court is directed to maintain the confidentiality of any documents and transcripts of testimony filed in accordance with the above. Where possible, only CONFIDENTIAL portions of the filings with the Court shall be under seal.

At the point of trial, we are in the realm of the intersection of privacy, trade secrets, copyright and confidential information, all of which may impinge on the public's right to know and the media's rights under the First Amendment.

The protection sought by sealing goes beyond the denial of the right to reproduce, the essence of copyright, and is a denial of access. The only copyright analogy is the circumvention of copyright protection systems, for which there is a prohibition of access to the technological measures, as provided for in Chapter 12 of the U.S. Copyright Act.

Sealing a judicial record essentially gives more than copyright protection to those who seek it. The tension is between a private trial, as opposed to a public tax-supported system. Can litigators obtain a more severe form of "copyright" protection?

In *Jessup v. Luther*,[4] the intervenor newspaper moved to unseal a settlement agreement. In a brilliant opinion by Judge Richard A. Posner, he reviewed the interest of secrecy in a judicial record:

> The general rule is that the record of a judicial proceeding is public. *Press-Enterprise Co. v. Superior Court*, 464 U.S. 501, 509-10 (1984); *United States v. Ladd*, 218 F. 3d 701, 704 (7th Cir. 2000) . . . Not only do such records often concern issues in which the public has an interest, in which event concealing the records disserves the values protected by the free-speech and free-press clauses of the First Amendment, but also the public cannot monitor judicial performance adequately if the records of judicial proceedings are secret. *Union Oil Co. v. Leavell*, 220 F. 3d 562, 567-68 (7th Cir. 2000); *United States v. Eppinger*, 49 F.3d 1244, 1252-53 (7th Cir. 1995) . . . These considerations, however, support a strong presumption rather than an absolute rule. When there is a com-

> pelling interest in secrecy, as in the case of trade secrets, the identity of informers, and the privacy of children, portions and in extreme cases the entirety of a trial record can be sealed. *Citizens First National Bank v. Cincinnati Ins. Co.,* 178 F. 3d 943, 945 (7th Cir. 1999) . . . The interest in secrecy is weighed against the competing interests case by case. *Central National Bank v. United States Dep't of Treasury*, 912 F. 2d 897, 900 (7th Cir. 1990) . . .

Judge Posner held that: "Documents in judicial files are presumptively open to the public and neither the magistrate judge nor any of the parties has given us any reason to think the presumption might be rebutted in this case. The order of the district court is therefore reversed with directions to grant the relief sought by the intervenor."

Some judges restrict protective orders in favor of supporting the concept of an open court. Judges are now likely to limit secrecy in open court. South Carolina's ten active federal judges have unanimously voted to ban secret legal settlements, stating that such agreements made the court complicit in hiding the truth about hazardous products, inept doctors and sexually abusive priests. Michigan has a similar rule, which unseals secret settlements after two years.[5]

We live in an age of information, so that clients regard anything of business value, whether formal trade secrets, copyrighted works, confidential or commercial information or not. Settlement agreements, like most arbitration awards and discovery materials, are private documents, and there is no judicial decision.[6] However, there can be no guarantee of secrecy if there is an open trial.

Certainly the use of a copyrighted work in a legal document does not dedicate it to the public. As Judge Morris E. Lasker observed:

> Without determining whether defendants in fact took the language in question from transcripts of trials or opinions, I find unpersuasive the contention that the use of such material, if originally copyrighted (as is undisputed here), is rendered innocent by inclusion in legal transcripts or opinions. To hold that such originally copyrighted material becomes somehow dedicated by use in the courts would permit the unraveling of the fabric of copyright protection. If defendants' theory were accepted, James Joyce's *Ulysses*, for example, would lie within the public domain merely because the United States prosecuted the book, unsuccessfully at that, a generation ago. Defendants cite no authority to support the position, and I find it without merit.[7]

To litigate and to preserve bona fide confidential information settlement agreements and trade secrets may require a protective order and sealing. These matters are very different from confidentiality provisions that forbid victims to talk about their experiences.

Litigants and their clients must heed the admonishment that the request for a protective order or sealing must show that a defined and serious injury will result from lack of secrecy, and that the court's response should be as narrow as possible.[8] Only in that way may the judicial public domain be preserved. I suggest that it is the lawyer's duty to advise the client of the need for restraint, which can be a very tough job!

Endnotes

1. *Veeck v. Southern Building Code Congress Int'l Inc.*, 293 F.3d 791, 796 (5th Cir. 2002).
2. Intellectual Property Strategist, December 2001 at p. 9.
3. Rule 26(c), F.R.C.P.
4. 277 F.3d 926, 927 (7th Cir. 2002).
5. New York Times, Sept. 2, 2002 at pp. A1 and A13.
6. *Jessup*, note 4, at 927.
7. *Marvin Worth v. Superior Films Corp.*, 319 F. Supp. 1269, 1270 (S.D.N.Y. 1970).
8. Moore's Federal Practice 3D, §26.102(1) at 26-246.

Alan J. Hartnick is a partner in the New York City law firm of Abelman, Frayne & Schwab, former President of the Copyright Society of the U.S.A. and Chair of the Copyright and Trademark Committee of the Entertainment, Arts and Sports Law Section of the New York State Bar Association.

The New German Law on Copyright Contracts—Is German Copyright Law Going Socialist?

By Alexander R. Klett

On March 22, 2002 the German parliament passed a new law amending the *Urheberrechtsgesetz* (German Copyright Act).[1] The new law was entitled an Act "to Improve the Contractual Situation of Copyright Owners and Performing Artists" (*Gesetz zur Stärkung der vertraglichen Stellung von Urhebern und ausübenden Künstlern*).[2] This Act came into force on July 1, 2002. Although this may not appear to be particularly noteworthy, particularly to U.S. intellectual property lawyers, it is important to beware. The new German Act did not merely lead to marginal amendments to the Copyright Act. Rather, to a certain extent, the Act does away with the freedom to contract for license agreements between the author of a work and his licensee. It may be a somewhat small relief to know that things could have been worse, and that the bill was mellowed down considerably during the legislative process.[3] The new provisions in the Act still give authors the possibility to have a court of law judge whether a license fee agreed upon is "adequate" or not. This is an absolute novelty in German copyright law. It also leads to some uncertainty for the time being. Unfortunately, the Act does not contain clear guidelines as to when exactly a fee will be considered to be inadequate.

This is not the only new provision in the German Copyright Act. The amendments also include changes to the so-called "best-seller clause" to the benefit of creators. These changes, introduced into the Copyright Act of a nation which constitutes one of the two most important foreign markets for the U.S. entertainment industry, may come as a surprise. They appear to have a "socialist" touch to them, at least at first glance. This article will try to shed some light on the changes to copyright law in Germany brought about by this Act, which purpose was to protect weak authors and creators against the bargaining power of the parties they contract with. As the legislative materials to the first draft of the bill stated: "This bill wants to correct the economic and organisational inferiority of creators vis-à-vis the initial exploiters of their works."[4]

"Adequate Compensation"

Undoubtedly the most important change to the German Copyright Act therefore is the introduction of sections dealing with "adequate compensation" to creators owed by licensees. These changes were the most controversial ones during the legislative process. Section 11 of the German Copyright Act now includes a new sentence saying that an additional aim of Copyright Law is "to secure an adequate compensation of the author or other creator of a protected work for the use of the work." The details of what this rather general clause is about are found in sections 32 and 32a of the amended Act.

According to section 32 of the new Act, the creator of a work is entitled to an adequate compensation. It needs to be pointed out, however, that this section 32 only applies to the contractual relationship between the creator and his immediate licensee, and not between the creator's licensee and any sublicensees. Yet, since German copyright law does not have a work for hire doctrine, this issue can arise—at least theoretically—in connection with every single work created, and even in employment relationships. The question thus is: When exactly will an agreed compensation be considered to be "adequate"? According to section 32 paragraph 1 of the Act, such adequacy may be determined in three different ways:

a) The general rule is that the creator of a work will receive the license fee contractually agreed upon between the parties.

b) If no license fee has been agreed upon, an "adequate compensation" will be considered to have been agreed to (and will then be owed).[5]

c) If a license fee that is not "adequate" has been fixed in the agreement, the creator of the work has the right to ask her licensee to agree to a modification of the agreement which will grant the creator an adequate compensation. If the licensee does not agree to a modification of the agreement the creator may bring a lawsuit against the licensee in which she can ask for a modification of the agreement and at the same time for payment of the difference between the adequate amount of compensation and the amount agreed. If she is successful, the court decision will modify the remuneration terms of the agreement, and order the defendant to pay such difference.

But when is the license fee "adequate"? Section 32 paragraph 2 of the amended Act says that the license fee will be considered to be adequate if, at the time the agreement is concluded, it is "in line with good faith license fees generally paid in business relationships considering the kind and extent of the licensed rights."

Factors to be taken into account include all circumstances of the license in question, in particular the duration and the time of the use of the work by the licensee.[6] This language is evidently not clear-cut, but will give courts some leeway to decide on adequacy in a particular case at issue. This leads to some degree of uncertainty in Germany in this respect for the time being. Such uncertainty will continue for as long as no sufficient body of caselaw has developed with respect to this question.[7]

For parties not willing to live with this uncertainty, the new Act offers two ways to reduce the risk of battles in court. If the license fee is set on the basis of remuneration contained in a collective bargaining agreement, there will be no claim for the creator under section 32. Alternatively, the new Act offers the possibility for associations of creators and associations of licensees or single licensees to agree upon so-called "compensation guidelines" (*gemeinsame Vergütungsregeln*). Amounts of remuneration contained in such guidelines will also not be challenged in court.

In cases in which neither one of these two ways out apply, it remains to be seen how courts will interpret the "good faith license fee which is generally paid in business relationships considering the kind and extent of the licensed rights." Judges and copyright scholars have indicated that if a license fee is in line with what is generally paid to a licensor for the kind of license in question, it will most likely also be in line with "good faith." However, one example cited in the legislative documents in which this may not be the case is the remuneration paid to translators of literature. In this respect, the legislators were clearly of the opinion that the customary compensation paid to such translators so far has been inadequate.

The German legislators tried to make the new provisions in the German Copyright Act airtight. Thus, contractual clauses trying to contract out the new section 32 of the Act will be held as null and void, and as will be shown below, the consequences of the new provisions also cannot be detoured by a choice of law clause.

In contractual relationships in which section 32 applies, it is therefore advisable to include very detailed language in the agreement describing the circumstances of the grant of the particular license. This should later help to provide arguments as to why a certain agreed-upon compensation is adequate in a specific case.

Section 32a—"Additional Participation by the Copyright Owner in Profits Generated"

Unlike section 32 of the Copyright Act, the new section 32a is not entirely new to German copyright law. Rather, it modifies and extends the existing so-called "best-seller rules" under the old section 36. Under this new section, if a creator of a work concludes a license agreement and the agreed-upon license fee later turns out to be "noticeably inadequate" compared to the turnover generated by the licensee in using the work, then the licensee will be forced to agree upon an amendment to the contract. Such amendment will then have to grant the creator an additional adequate share in the turnover generated by the licensee.

It is irrelevant under the express wording of the new Act as to whether the parties anticipated or could have anticipated the amount of the turnover generated. The main difference in the language of this new section 32a paragraph 1 compared to the old section 36 paragraph 1 is the wording "noticeably inadequate" (*auffälliges Missverhältnis*). Under the old Act additional compensation was owed only in cases in which the license fee was considered to be "grossly inadequate" (*grobes Missverhältnis*) and unexpectedly so,[8] whereas now it will only have to be "noticeably inadequate."

In the past, courts have held that even if the "adequate" compensation was more than twice the amount actually agreed upon between the parties, it was not "grossly inadequate."[9] Courts did find "gross inadequacy," however, in cases in which the agreed compensation was only 18.95 percent or 35.26 percent of the amount which would have been adequate as determined by the court.[10] The legislative documents to the new Act seem to suggest that a difference of 100 percent, or even less, between the amount agreed upon and the adequate amount will constitute "noticeable inadequacy."[11] However, judges as well as some copyright scholars and practitioners seem to take the view that no clear figure can be defined and that every case will have to be decided based on the individual facts. Consequently, here again, a fair degree of uncertainty will remain until there is a sufficient body of caselaw dealing with the new "best-seller provision."

There is one main difference between section 32 and section 32a: Unlike section 32 of the new Act, section 32a will not only apply between the creator of the work and its immediate licensee. If the licensee has granted sublicenses, and the noticeable inadequacy results from the turnover of a third party (i.e., a sublicensee or sub-sublicensee) such third party will be directly liable to the creator under section 32a. In this case the (first) licensee will not owe any additional amounts to the creator.

As is the case with section 32, claims under section 32a can be safely avoided only via the application of collective bargaining agreements or agreed-upon compensation guidelines, provided that they contain detailed clauses regarding the amounts payable to the creator in a "best-seller case." Finally, just like section 32, section 32a also cannot be contracted out.

Applicability of Sections 32 and 32a—Choice of Law Clauses

According to section 32b of the Act, the new rules in sections 32 and 32a will automatically apply in two scenarios:

a) for cases in which German law would apply to the license agreement if the contract did not contain a choice-of-law clause, and

b) for cases in which the object of the license agreement is significant uses of the licensed work in Germany.

It will thus generally not be possible to avoid the consequences of the new Act by trying to agree on a choice-of-law clause. Even if the German legislature thus tried to close any loopholes in the new Act, it appears unclear whether foreign courts will apply such rules of German copyright law. However, under the new Act, if a license agreement is governed by a foreign law combined with a foreign forum chosen in the agreement, the foreign judge would, at least in theory, have to apply sections 32 and 32a of the German Copyright Act in a section 32b scenario, in addition to the remaining provisions of the respective national copyright law. Whether a federal judge in the U.S., for example, would be willing to do so, appears somewhat questionable.

Agreed Compensation Guidelines—Arbitration Panels

The new sections 36 and 36a also contain detailed provisions about the procedure to follow in setting up agreed compensation guidelines between associations of creators and licensees, and arbitration rules should the parties not be able to agree on such rules. There is no obligation to agree on compensation guidelines. If one party so requests, there will be an arbitration procedure, which will end with a suggestion by the arbitration panel for an agreed guideline. If one of the parties objects to this suggestion within a period of three months, however, it will be null and void. Suggestions by an arbitration panel will thus not be binding. The new Act offers the procedure nevertheless, with the aim of offering the parties one option to avoid uncertainty and court battles via compensations agreed to under such guidelines.

Changes to the Sections on Motion Pictures

Section 88 of the German Copyright Act on film production agreements was modified to the benefit of film studios. Unlike the previous wording, the new wording of this provision does not limit the use rights granted by the creator of the underlying work to the film producer in the film production agreement. Under the new Act, the author will automatically grant to the other party the exclusive right to turn the underlying work into a movie, either in unchanged or in modified form, and to use the movie as well as translations of it and other modifications to the movie by any known means of use, unless the parties expressly agree otherwise.[12]

However, ancillary rights, which do not constitute an integral part of using the movie as such (such as merchandising rights), will still have to be expressly granted by the creator in future contracts relating to film production. These rights will continue not to be automatically included in such film production agreements.

It should be pointed out that the new sections 32 and 32a also apply to creators of motion pictures—in particular the director of a motion picture—as well as to owners of neighbouring rights in motion pictures. They are therefore also entitled to have their agreed compensation reviewed in court as outlined above.

Application of the New Provisions in the Act

The new provisions in the German Copyright Act generally do not apply to contracts concluded before March 28, 2002. However, section 32a will apply to any "best-seller case" under pre-existing agreements, the effects of which happened after March 28, 2002. In other words, if the disproportionately high revenues by the licensee were generated after March 28, 2002, an additional remuneration under section 32a will be owed. Furthermore, section 32 already applies to all contracts concluded on or after June 1, 2001, provided that the licensed right was or is used after March 28, 2002.

Finally, it needs to be pointed out that sections 32 and 32a also apply to performing artists. The time limits for application of these sections to performing artists are the same as for authors and other creators of protected works.

Conclusion

The Act to Improve the Contractual Situation of Copyright Owners and Performing Artists of March 22, 2002 has brought some major changes to German copyright law. These changes have the unpleasant side-effect of creating some uncertainty for the next few years until German courts, and, in particular the German Supreme Civil Court (*Bundesgerichtshof*), will have had a chance to provide some guidance as to how the new provisions will be applied and interpreted. For the media industry, there are likely going to be some changes in certain areas. For example, according to the legislative documents, literary translators are one group of "underpaid" creators in need of help. It remains to be seen whether courts find other such groups of creators. It is also not clear yet whether the outcry during the legislative process, particularly by German publishing houses, was appropriate, and whether the new provisions will indeed lead to considerably higher costs for them. For the time being however, we are confident that German courts will find a balanced way to interpret the new provisions with which both creators and the media and entertainment industry can ultimately live.

Endnotes

1. Gesetz über Urheberrecht und verwandte Schutzrechte (Urheberrechtsgesetz) [Act on Copyright and Neighboring Rights] of Sept. 6, 1965 (BGBl. I S. 1273) as amended.
2. Gesetz zur Stärkung der vertraglichen Stellung von Urhebern und ausübenden Künstlern [Act to Improve the Contractual Situation of Copyright Owners and Performing Artists] of Mar. 22, 2002 (BGBl. I S. 737).
3. *See* Haimo Schack, *Urhebervertragsrecht im Meinungsstreit* [*The Dispute on Copyright Contract Law*], 2002 Gewerblicher Rechtsschutz und Urheberrecht [GRUR] 853. He points out that, according to the original wording of the bill, authors would have had a direct and immediate legal claim to an "adequate compensation" for the use of their works; furthermore, the bill would have provided for an obligation to set up so-called agreed compensation guidelines. As will be shown below, this is no longer the case in the provisions of the Act.
4. Bundestags-Drucksache 14/6433, at 9 (2002). The bill continues by stating:

   > Free-lance creators and performing artists are legally considered to be entrepreneurs. In fact, however, they can usually be compared more to salaried employees. Unlike other free professions such as lawyers, doctors and architects they do not benefit from a legal fee structure which grants them an adequate compensation for their work, which compensation will generally also be in line with the respective economic framework. Rather, they are subject to the unequal forces on the market, unless they belong to the small group of stars (approximately 1.5%) who have sufficient bargaining power . . .

5. This is an idea which is not new to German civil law at all. Under §§ 612 and 632 BGB [German Civil Code] there is a general rule for employment, work and service agreements, according to which a compensation will automatically be taken to have been tacitly agreed upon (unless, in exceptional circumstances, the particular service happens to be one for which a compensation cannot be expected). Such compensation will then be in an amount which will be common or customary considering the respective circumstances.
6. The German text reads: "Im übrigen ist die Vergütung angemessen, wenn sie im Zeitpunkt des Vertragsschlusses dem entspricht, was im Geschäftsverkehr nach Art und Umfang der eingeräumten Nutzungsmöglichkeit, insbesondere nach Dauer und Zeitpunkt der Nutzung, unter Berücksichtigung aller Umstände üblicher- und redlicherweise zu leisten ist."
7. German copyright scholars have tried to shed light on the question of whether there can be general guidelines for defining "adequacy." *See, e.g.*, Gerhard Schricker, *Zum Begriff der angemessenen Vergütung im Urheberrecht—10% vom Umsatz als Maßstab?* [*Reflections on the Term "Adequate Compensation" in Copyright Law—Can 10% of Turnover be the Guiding Line?*], 2002 GRUR 737. He suggests that there cannot be a general rule according to which, for example, a compensation to the author in an amount of 10% of the turnover generated by the licensee will be "adequate." He takes the view that, indeed, every single case will have to be decided on its own facts and circumstances, and that the compensation which will be found to be "adequate" in a specific case may be well below 10% of the turnover generated by the licensee, but may also be higher.
8. Schricker, Urheberrecht, § 36, at 12 (2nd ed. 1999).
9. Bundesgerichtshof [Supreme Court], 1996 GRUR 763, 765 (F.R.G.).
10. Bundesgerichtshof [Supreme Court], 1991 GRUR 901, 903 (F.R.G.).
11. Bundestags-Drucksache 14/8058, at 19 (2002).
12. This section now reads: "Gestattet der Urheber einem anderen, sein Werk zu verfilmen, so liegt darin im Zweifel die Einräumung des ausschließlichen Rechts, das Werk unverändert oder unter Bearbeitung oder Umgestaltung zur Herstellung eines Filmwerkes zu benutzen und das Filmwerk sowie Übersetzungen und andere filmische Bearbeitungen auf alle bekannten Nutzungsarten zu nutzen."

Alexander R. Klett is an intellectual property law attorney with Gleiss Lutz in Stuttgart, Germany. He studied law at the Universities of Passau, Germany, Lausanne, Switzerland and Tübingen, Germany. He got his law degree from the University of Tübingen in 1996. He subsequently got an LL.M. degree from the University of Iowa in 1997 and a doctorate degree in law (Dr.jur.) from the University of Tübingen in 1998 for a dissertation on comparative U.S.-German copyright law. He was admitted to the German bar in 1999.

Pro Bono Update

By Elisabeth K. Wolfe, Pro Bono Committee Chair

Get Inspired to Volunteer!

Welcome to the first issue of the EASL Pro Bono Update. As the Chair of the Pro Bono Committee, I am delighted to be a part of this team effort dedicated to raising awareness about important issues in the community that we as a Section can help address.

The newly established Pro Bono Committee plans to publish an Update three times during the year and offer articles pertaining to New York-based non-profit organizations and the pro bono opportunities they offer. In addition, as a Committee, we want to make it enjoyable and rewarding for our members to fulfill the state Bar's aspirational goal that every attorney give at least 20 hours of pro bono service per year, and/or make a gift. We strongly believe that pro bono work is not only a professional responsibility, but it can be one of the most gratifying experiences in the life of a lawyer.

The EASL Pro Bono Update is complimentary for all Section members and your participation as a member of the Pro Bono Committee and as a contributor to this newsletter is welcome. For more information about the Committee or any of the pro bono opportunities listed below, please e-mail me at elkwolfe@aol.com. In addition, please check out our Web site (www.nyeasl.org) which contains our guidelines for contributors to The Phil Cowan Memorial Scholarship.

Volunteer for the Next VLA Clinic

Volunteer Lawyers for the Arts (VLA) has been helping artists and arts organizations with their arts- and entertainment-related legal issues for nearly 30 years. EASL has teamed up with VLA to sponsor two EASL legal clinics, one that took place on February 12 and the next which is scheduled for May 14, 2003. EASL members volunteer at the clinic in two half-hour shifts from 4-7 p.m. and are matched with clients who are seeking advice on their arts-related issues. The clinics take place at the VLA offices, which are located in The Paley Building at 1 East 53rd Street, 6th Floor. If you are interested in volunteering for the clinic, please e-mail me. You can also learn more about VLA by visiting its Web site at www.vlany.org.

Volunteer to Teach and Receive CLE credit

Are you interested in teaching? VLA is looking for instructors for the following CLE classes:

- **Managers in the Arts and Entertainment Industry**

  This transitional CLE workshop is appropriate for attorneys seeking an understanding of managers in arts and entertainment industries. Topics include managerial roles, functions, comparisons to other advisors, and negotiating a management agreement.

- **Talent Contract Basics for the Film Industry**

  This transitional CLE workshop is appropriate for attorneys seeking an overview of talent contracts in the film and theatre industries. Topics include overview of the industry, contract basics, and talent agencies such as SAG, AFTRA, and WGA.

- **Sports Licensing Basics**

  This transitional CLE workshop is appropriate for attorneys seeking an overview of sports licensing. Topics include basic principles of trademark law, league issues, licensing, marketing, and labor/management issues.

- **Trademark Basics**

  This transitional CLE workshop is appropriate for attorneys seeking an overview of trademark law. Topics include basic principles of trademark law, unfair competition, international and domestic trademark protection, and trademarks and the Internet.

- **Legal Issues in the Film Industry**

  This transitional CLE workshop is appropriate for attorneys seeking an overview of film industry-specific issues. Topics include acquiring underlying rights, securing appropriate releases and clearances, working with union talent, the structure of the writer's agreement, litigation risks, and insurance considerations. The workshop will also provide a brief overview of contract and copyright law.

- **Legal Issues in the Sports Industry**

  This transitional CLE workshop is appropriate for attorneys interested in an overview of attorney practice issues in the sports industry. Topics include unions and management, the roles of attorneys, agents, and managers, player disciplinary issues, and licensing and marketing.

- **Legal Issues in the Music Industry**

  This transitional CLE workshop is appropriate for attorneys seeking an overview of music industry-specific issues. Topics include name ownership, managers, agreements, publishing, royalties, record companies, and distributors. The workshop will also provide a brief overview of contract and copyright law.

Get Your CLE Credit by Taking on a VLA Case!

VLA was recently approved to give Professional Skills CLE credit to attorneys who do pro bono work. Credit for pro bono legal services shall be awarded in the following ratio: one (1) CLE hour for every six (6) 50-minute hours (300 minutes) of eligible pro bono legal service. A maximum of six (6) pro bono CLE credit hours may be earned during any one reporting cycle. CLE credit is not available to volunteer attorneys in the 501(c)(3) Incorporation program or the clinic. Newly admitted New York attorneys may earn pro bono CLE credit solely for the purpose of carrying over pro bono CLE credit to the following biennial reporting cycle in partial fulfillment of the requirement for experienced attorneys.

Featured Organization: Ice Hockey in Harlem

In each issue of the Pro Bono Update, we will feature nonprofit organizations that we hope you will explore! For more information about Ice Hockey in Harlem, visit its Web site at www.icehockeyinharlem.org.

Ice Hockey in Harlem is a not-for-profit community-based youth organization that uses the dynamic sport of ice hockey to promote academic achievement, responsibility, teamwork, and most importantly life skills. The objective of the organization is to provide inspiration, encouragement and guidance to children that leads to better life experiences, education and career opportunities at no cost to its participants.

- **History**: Established in the winter of 1987, Ice Hockey in Harlem (IHIH) introduced the dynamic sport of ice hockey to the economically challenged community of East Harlem. In its inaugural year, IHIH began with forty boys, between the ages of 7-17, eager to learn the game of ice hockey. In exchange for participation one night a week on the ice, all participants agreed to attend weekly mandatory classroom sessions. In classrooms, these IHIH pioneers were taught math, reading, and geography using ice hockey, its history, cities and statistics as teaching tools. The program has always incorporated academic achievement and literacy into the experience of learning and mastering the skills of ice hockey. In its sixteenth season, it will have more than 175 inner city youth enrolled in the program at no cost to the participants.

- **Population Served:** Currently, Ice Hockey in Harlem provides educational and social services to over 175 Hispanic and African-American children between the ages of 4-17 living throughout the Harlem community. About 90 percent of the participants are male and 10 percent are female. 55 percent of the youngsters are of Hispanic heritage and 45 percent of the youngsters are of African-American background. Spanish is the primary language spoken by half of IHIH participants.

  Based on City Council Profiles for Harlem Council Districts 8, 9 and 10 there are 500,000 residents living in the Harlem community. Of those residents 26 percent are 18 years or under, 19 percent are white, 32 percent are African American, 46 percent are Hispanic and two percent are Asian. About 41 percent of persons 25 and older lack a high school diploma. Only 32 percent of elementary-aged children are reading at or above grade level. In 1990, less than eight percent of residents lived in owner-occupied housing. In 1996, 21 percent of residents were receiving public assistance.

- **Programs and accomplishments:** Today, Ice Hockey in Harlem provides the opportunity for children between the ages of 4-17, to engage in the challenging sport of ice hockey. The program also provides access to a range of educational and social services. Participants spend one hour in a mandatory classroom session and 1½ -2 hours on the ice each week.

In mandatory classroom sessions, volunteer teachers employ a user-friendly curriculum that uses hockey as a basis to explore other academic areas such as math, geography, writing, teamwork and social skills. On the ice, teamwork, social skills and responsibility are emphasized.

The Social Work Department provides academic case management, high school and college counseling and preparation and assists in obtaining high school scholarships. This year eight students are attending private and parochial schools on scholarships provided by IHIH. Counseling is offered and links with other agencies assure additional services, for example, tutoring and testing for children when needed. Mentors are recruited, trained, matched with students and offered support by staff in planning activities with their students.

While adult volunteers serve as role models for community service, senior participants in the IHIH program are required to contribute time both within the organization and the wider community. Senior participants feed the homeless in the Salvation Army shelter. They also conduct a clinic on Long Island for disabled children with a passion for ice hockey. The disabled children play on sleds, rather than on skates. The seniors also visit Ronald McDonald House and complete a Harlem-based clean-up project.

On the ice, throughout the winter, our volunteer coaches teach hockey skills, discipline and teamwork. There are 165 boys and 10 girls currently enrolled in the organization's on-ice and classroom programs. In the boys' program there are five divisions, based primarily on age. While the girls continue to practice and play with the boys, last year IHIH launched a curriculum-specific program aimed at girls eight years and older. IHIH covers the cost of time on the ice and supplies all ice hockey equipment.

Ice Hockey In Harlem has demonstrated for the past 15 years that hockey can be successfully used to attract children in Harlem to a program where participants learn an exciting sport, focus on academic achievement, and have access to enhanced educational and career opportunities. Graduates of the IHIH program have gone on to attend St. Lawrence University (2), Skidmore (2), the University of Massachusetts (1), Johnson and Wales (1), the State of New York University System (5) and the City of New York University System. IHIH provides counseling and assistance in completing college applications. Program participants are currently employed at JP Morgan Chase, Citibank, Prudential Securities and other corporations as a result of introductions made through the program.

It is through the dedication of over 60 trained volunteer coaches, teachers, tutors and mentors who are mobilized weekly that IHIH is able to provide participants an enriched and rewarding experience at no cost. This year there were 25 coaches and 15 classroom teachers. Two interns from Columbia University, The School of Social Work, provided social work services on a volunteer basis.

We're Exploring!

The Pro Bono Committee is actively exploring additional entertainment- arts- or sports-related non-profit organizations based in New York State that could benefit from a collaborative relationship with EASL. If you are interested in helping us with this search, please e-mail me at elkwolfe@aol.com.

Upcoming VLA Programs

Since 1969, VLA has been the exclusive provider of pro bono legal services, education, and advocacy to the New York arts community. Through public advocacy, VLA frequently acts on issues vitally important to the arts community—freedom of expression and the First Amendment being areas of special expertise and concern. We serve over 7,500 clients each year. You can get involved and help in the following ways:

VLA Legal Services

* CLE Credit for Pro Bono Work!

VLA has been approved to provide CLE credit for pro bono legal services rendered. Credit for pro bono legal services shall be awarded in the following ratio: one (1) CLE hour for every six (6) 50-minute hours (300 minutes) of eligible pro bono legal service. A maximum of six (6) pro bono CLE credit hours may be earned during any one reporting cycle. Please contact Aaron Hauser, Pro Bono Coordinator, at (212) 319-2787 ext. 11 for more information.

* Pro Bono Case Placements

By placing cases with volunteer attorneys, VLA delivers pro bono legal services to low-income (per VLA guidelines) individuals and nonprofit arts organizations. The VLA Case List is e-mailed on the 1st and 15th of each month to our volunteer attorneys and pro bono coordinators. Cases are available on a variety of issues ranging from trademark, copyright, and other intellectual property issues to nonprofit incorporation and 501(c)(3) status, and other matters of corporate formation to contracts and licensing agreements. Artists from every discipline utilize our services including: filmmakers, visual artists, playwrights, poets, directors, musicians, multi-media artists, graphic designers, independent curators, dancers, and actors. VLA requires that all of its volunteer attorneys be covered by legal malpractice insurance, and advises our clients that the attorneys must check for conflict of interest on each case before agreeing to accept it. If you would like to receive VLA's Case List or more information, contact Aaron Hauser, VLA Pro Bono Coordinator, at (212) 319-2787 ext. 11. VLA also holds a monthly New Volunteer Orientation. Please find upcoming dates posted on www.probono.net.

* Bi-monthly Legal Clinic

The VLA Legal Clinic is a bi-monthly forum for any VLA member to meet privately with an attorney to discuss his or her arts-related legal issues. The clinic provides an opportunity for attorneys to advise clients in a direct and effective manner. Held from 4-7 p.m. on the second and fourth Wednesday of each month, the clinic also provides volunteer attorneys with a low-time-commitment option. Contact Aaron Hauser at (212) 319-2787 ext. 11 to participate.

CLE Accredited Seminars

VLA is pleased to announce that it has been approved by the New York State Continuing Legal Education Board to provide CLE credit for the following transitional classes. For questions or to register for a workshop please call (212) 319-ARTS, ext. 10. All workshops are held at VLA's office in the auditorium of The Paley Building, 1 East 53rd Street, Ground Level.

Call for Instructors

Please contact Alexei Auld, Director of Education at (212) 319-2787 ext. 12. (See Pro Bono Update, pp. 74-75, for further details).

* **CLE Credit: Areas of Professional Practice: 3 CLE credit hours**

- Nonprofit Incorporation and Tax-Exempt Status
- Contract Basics for Arts & Entertainment Professionals
- Copyright Basics
- LLC, "C" Corp, or "S" Corp: Choosing the Right Corporate Structure For Your Arts Business

* **CLE Credit: Areas of Professional Practice: 2.5 CLE credit hours**

- Trademark Basics
- Managers in the Arts & Entertainment Industry
- Talent Contract Basics for the Film Industry
- Music Licensing Basics
- Sports Licensing Basics
- Legal Issues in the Sports Industry
- Legal Issues in the Music Industry

VLA Mediateart Program

VLA offers mediation training to arts professionals and attorneys for New York State Certification and pairs artists with mediators to resolve arts-related disputes outside the traditional legal framework. For more information contact Hilary Burt, VLA Coordinator of Mediation, at (212) 319-2787 ext. 16.

The Entertainment, Arts and Sports Law Section Welcomes New Members

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

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

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☐ Please consider me for appointment to the Entertainment, Arts and Sports Law Section Committees as indicated below.

☐ Please send me information on membership in the Entertainment, Arts and Sports Law Section.

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Please designate in order of choice (1, 2, 3) from the list below, a maximum of three committees in which you are interested.

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