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Bright Ideas

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Message from the Chair

This year marks the 25th Anniversary of the Intellectual Property Law Section and the 10th anniversary of my membership in the Section. When I first joined the Section in 2008, I'd been a member of several local and national bar associations as well as practice-related associations. In some of these other associations I was avidly engaged on committees, and in others my involvement consisted primarily of paying annual dues. What I found in the IP Section, however, was more than just a professional association. This has been true consistently since Rory Radding (still an active Executive Committee member and past Chair of the Section) started the Section in 1998, through the present. It's what hooked me from the beginning and what has led me to revere the role that the Section plays for me and others.

The Section is a community of professionals that spans the spectrum of experience, from students to newly admitted attorneys to partners and general counsels, as well as of practice areas so varied that occasionally it's hard to believe that we all fit within the "IP" umbrella. Yet regardless of these differences, the sense of interest, commitment, loyalty, and care that's exhibited by the Section community is profound. Whether it's planning a program, attending an event, or networking with members looking to change their professional trajectory, members of the IP Section are always there. The dedication, generosity, and kindness of our members are the essence of the Section. Regardless of whether a member attends events regularly or only participates on an ad hoc basis, the Section welcomes everyone equally, offering a professional—and personal—community second to none.

The Section's program offerings this past quarter aptly reflect this diverse yet inclusive community. Our Annual Meeting in January was another astounding success. Program Chair (and past Section Chair) Michael Chakansky delivered an excellent day of thoughtful discussion, followed by our Section's first ever collaborative cocktail reception with the Entertainment, Arts and Sports Law Section. The panel topics were unique and intriguing, ranging from corporate social responsibility to web analytics; IP issues raised by documentaries and biopics to an annual review of copyright litigation; and a roundtable of past Section Chairs sharing their thoughts on the state of IP law and our profession. I had the privilege of meeting members from around the state and around the country—even a member who regularly attends the Annual Meeting from Kentucky! If you made it, hopefully you enjoyed the day as much as I did. If not, next year's Annual Meeting will be a week earlier than usual, on Tuesday, January 15, 2019. Mark your calendars!

In February, Diversity Co-Chair Deborah Robinson and I invited health coach Tina Corrado (www.tinacorrado.com) and productivity expert Paul Burton (www.quietspacing.com) to present at a program entitled "Slowing Down, Getting Ahead: Living Mindfully, Working Efficiently and Increasing Satisfaction," graciously hosted at the offices of HBO. The evening offered practical tips on improving our health, increasing our efficiency, and encouraging our greater satisfaction. A reception following the program provided a great opportunity for attendees to meet, mingle, and share secrets for achieving success.

With such fantastic offerings behind us, we're fortunate in what we still have to look forward to! On Tuesday, May 1 from 8:30 to 11:00 am, the Section will join with the Food, Drug and Cosmetic Law Section to present a program entitled "Pharmaceutical Brand Names: Navigating the PTO/FDA Rapids" at the offices of Fross Zelnick. Additionally, the 16th Annual "Women in IP" program, a quintessential community-building event, will be held on Wednesday, June 6 from 5:00 to 8:00 pm at the New York City offices of Davis Wright Tremaine, led once again by the formidable Joyce Creidy.

Speaking of community, I encourage everyone to check out the Section's Community, an internet-based private online professional platform operated on our Section's behalf by the NYSBA (http://communities.nysba.org/home). The Community provides a platform in which IP Section members can pose questions, share experiences, and benefit from our collective knowledge. With such a supportive real-life IP Section community, building a similar Community online seems a natural extension. The more we all participate, the more robust the Community will be!

Finally, no discussion of IP Section community would be complete without acknowledging the herculean efforts of Jonathan Bloom, editor-in-chief of this publication. Jonathan works tirelessly to develop article ideas, increase our members' profiles, and manage the process of getting everything into print. Jonathan operates entirely behind the scenes (or pages, in this case). His contributions to our community are known by few but enjoyed and appreciated by the Section as a whole.

It has been an honor to be a part of this Section and to serve as Chair. We have an amazing community. Thanks to all who are a part of it!

Erica D. Klein

Measuring the Mark: Use of Analytics in Trademark Infringement Cases

By David Haas, Nick Vasdekas, and Jordan Salins

I. Introduction

A number of issues in trademark litigation may be informed by identifying the extent to which consumers have been exposed to disputed marks. Specifically, analyzing and understanding the dissemination of messaging involving the asserted and alleged infringing marks, as well as associated consumer impressions derived through that messaging, may help in determining (1) confusion, (2) secondary meaning, (3) extent of use, (4) corrective advertising, and (5) market penetration in disputes involving common-law rights. Litigants and their experts may consider these elements in order to establish liability and/or quantify damages in trademark litigation matters.

As methods of disseminating consumer messaging have moved toward internet advertising and social media usage, new data sources and analytical techniques have emerged to help measure the resulting consumer impressions. Web analytics and social media data can be used to supplement traditional evidence in demonstrating the volume, frequency, costs, and sources of consumer impressions of the asserted and alleged infringing marks.

II. Confusion

Proving actual confusion or likelihood of confusion in trademark infringement disputes has historically involved use of consumer surveys and the associated issues of:

- sample size determination
- qualification of survey participants
- identification of controls
- crafting of proper survey questions
- interpretation of results

In recent years, consumers have used social media platforms, review sites, and search platforms to express their opinions and to publish reviews and ratings of products, services, and overall experiences with companies. As a result, host websites have compiled historical information that can chronicle consumer sentiment, reasons for purchase, and purchase intent. Such information can be used to help prove the existence and potential prevalence of confusion.

In many cases, consumers express concerns regarding marketplace confusion on these sites. For example, if a consumer bought a product from an accused infringer using a disputed mark with the impression that he or she was buying from the mark owner, that consumer might comment about this confusion on a social media or review site. Websites that contain this information include Amazon, Yelp, Google, and Facebook. An expert may use specific examples to help prove confusion.

In addition, the ability to count the number of posts demonstrating confusion over a specific time period can help build a stronger argument. Tracking, summarizing, and quantifying customer reviews across website and social media channels may help an expert show that an accused infringer's actions caused customer confusion in the marketplace. In contrast, the previously described analysis may also help disprove the notion that an accused infringer's actions caused customer confusion vis-à-vis the plaintiff's trademark. For instance, if the data show that consumers readily distinguished the accused infringing product from the mark owner's product, it may be easier to refute the claim that consumers were confused in making their purchase decisions.

III. Secondary Meaning

Due to the enhanced rights afforded through registration on the Principal Register, owners of descriptive trademarks often wish to establish secondary meaning for those marks. Courts in various jurisdictions have identified a number of factors that may be considered in evaluating whether secondary meaning has been acquired. In the Second Circuit, one set of such factors was identified in *Centaur Commc'ns, Ltd. v. A/S/M Commc'ns, Inc.*:[1]

- advertising expenditures
- consumer studies linking the mark to a source
- unsolicited media coverage of the product
- sales success
- attempts to plagiarize the mark
- length and exclusivity of the mark's use

Several of these factors may be informed, at least in part, by information that may be available through social media and web analytics. For instance, consumer reviews (such as those on Amazon, Yelp, and Google) may provide useful information to assist in linking the mark to a source or as examples of unsolicited media coverage. Social media followers might publish likes or tweets/

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retweets, which also could be used to measure those factors. However, in using such social media and web analytics information to satisfy the *Centaur Commc'ns* or similar factors, it may be important to demonstrate the portion of the relevant market composed by the authors of such posts or the number of unique visitors to relevant sites.

As for demonstrating the "advertising expenditures" factor, mark owners should not ignore digital advertising spending and associated click-through results. While traditional media advertising (e.g., print, television, and radio) remains an important consideration, companies now also make significant investments in promoting themselves and their products through banner advertising, Google AdWords purchases, and social media campaigns. It is relatively easy for companies to measure the results of such digital marketing activities through data analytics.

which consumers viewed, clicked, and were potentially influenced by exposure to trademarks and website information while purchasing products and/or services online. Before companies began using these platforms to sell products, this wealth of information was not available.

Furthermore, various social media sites provide easy-to-capture information on the number of followers, demographics of followers, number of likes, number of tweets/retweets, etc. Such analytical tools and data sources are available to track the impressions and extent of use of accused infringing marks, allowing experts to better understand the volume of consumer exposure to those marks.

This information, in turn, might help an expert identify which customer groups have been exposed to an accused infringing mark and, consequently, which of the accused infringer's sales may be subject to damages compensation.

"As for demonstrating the 'advertising expenditures' factor, mark owners should not ignore digital advertising spending and associated click-through results."

IV. Extent of Use

Another set of issues commonly examined in trademark infringement litigation involves measurement of the extent of use of the accused infringing marks and quantification of revenues derived through that use. In recent years, companies have expanded their use of social media and search engine optimization (SEO) in promoting and selling their products and services. As a result, various analytical tools have been developed to measure and optimize those digital marketing activities. Using those tools, it is now quite easy for companies to measure numerous variables, including:

- organic website visits
- paid website visits
- unique website visitors
- geographic distribution of website visitors
- pages viewed during website visits
- duration of website visits
- bounce rates
- search term counts
- number of click-throughs to additional revenue-producing websites

Social media and SEO advertising analytics allow companies to directly count and quantify the extent to

A number of third-party websites also provide analytics related to website and social media impressions. These third-party sites track various SEO metrics and website traffic in order to estimate impressions and a company's marketing spend. Customer web searches have grown exponentially since the rise of common search engines such as Google and Bing. In fact, as of May 2016, it was estimated that the Google search engine processes at least two trillion searches per year[2] or approximately 2.3 million Google searches per minute.[3] By comparison, in 1998, the year Google launched, users were making only 500,000 searches per day.[4]

V. Corrective Advertising

In some circumstances, courts have awarded corrective advertising damages when the mark owner was able to demonstrate that its ability to make effective use of the trademark to identify its products or its company as a source of such products has been harmed. In these cases, it may be useful to demonstrate the volume of improper impressions that have been disseminated into the marketplace.

Again, website analytics and social media data can be a source of relevant information. For example, if the accused infringer ran a social media advertising campaign, it may be possible to obtain statistics in the discovery process detailing:

- the number of views and viewers of that campaign
- the amount of sharing of campaign information
- the number of click-throughs resulting from that campaign
- the revenues derived through that campaign
- the amount of money spent on that consumer-facing advertising

Such information may be useful in identifying the scale and cost of potential corrective marketing and advertising activities.

VI. Market Penetration

When common-law trademark rights are being asserted, it may be important to demonstrate whether and where market penetration has occurred. Historically, the courts have looked to geography-centric tests of market penetration, such as sales volume, growth trends, number of purchasers, and advertising and promotional expenses. For each of these tests, it may be possible to turn to web analytics and social media data as complementary sources of potentially relevant information. For instance, in order to determine the number of purchasers for a particular product, it may be useful to demonstrate the number of website visits, click-throughs, followers, and likes from relevant geographies. Also, expenditures on ad word purchases, banner ads, and other Internet-based promotional methods can be considered in analyses of advertising and promotional expenses.

Furthermore, although there is not yet a body of supporting case law, over the past decade there have been significant paradigm shifts in the way products are promoted and sold in the marketplace. Using the Internet and various e-tailing methods, companies can easily reach customers in any state or country regardless of the physical location of the seller. It may no longer be relevant to measure market penetration in a boundaried area determined by customer proximity to brick-and-mortar store locations. Instead, future market penetration tests might be more relevant if the defined market area includes the entire U.S. as a monolithic market.

VII. Conclusion

Parties involved in trademark infringement litigation would be wise to take advantage of available web analytics and social media data tools to bolster their cases. Evidence of confusion, extent of use, volume of impressions, and market penetration all may be augmented with a variety of new sources of information, often providing additional insight into consumer interactions with companies and their products and services. In order to take full advantage of this type of information, litigants would be well served by remembering to include related requests during the discovery process.

Endnotes

1. 830 F.2d 1217, 1222 (2d Cir. 1985).
2. Danny Sullivan, *Google Now Handles at Least 2 Trillion Searches per Year*, Search Engine Land, May 24, 2016.
3. Jillian D'Onfro, *Here's a Reminder of Just How Huge Google Search Truly Is*, Business Insider, Mar. 27, 2016.
4. *Id.*

Brands, CSR, and Compliance: Working Together to Create Value and Improve Society

By Jennie McCarthy, Marc Lieberstein, Alex Bullock, and Holly Gaudreau

I. Introduction

> "It takes 20 years to build a reputation and five minutes to ruin it. If you think about that you will do things differently."
>
> —Warren Buffet

Now more than ever, brand reputation is linked to "doing good" as corporate social responsibility (CSR) has taken on a greater importance due to increased awareness about the impact of business practices on human rights, labor, and the environment.

CSR is generally defined as "a commitment to improve community well-being through discretionary business practices and contributions of corporate resources."[1] Some observe that sustainability and business issues have now converged and that the future of CSR will be "resilient business strategies that view progress on sustainability as a means of long-term value creation and innovation."[2]

Consumer expectations and desires often drive a company's CSR efforts. A Nielsen Company 2014 study of more than 30,000 consumers in 60 countries showed the impact of CSR on consumer behavior. More than half responded they would pay more for products and services from companies committed to positive social and environmental impact.[3]

Some key benefits for brand owners participating in CSR business transactions include enhanced brand recognition and ability to manage business risk, with the potential to increase revenue, lower expenses, and engage new and more loyal customers. Indeed, companies that apply CSR actively manage risks via product safety, supply chain compliance, and ethical business practices while building goodwill through charitable contributions, promoting diversity, equality, sustainability, and the like. However, if CSR participants fail to vet their CSR affiliations or activities, including the associated supply chain compliance requirements, brand owners risk losing complete control over their brand or damage to the brand's reputation if for some reason "doing good" results in doing bad, e.g., providing free clothing to a community that results in putting the local apparel company out of business.

This article explores the relationship among CSR, brand value, and compliance and provides ideas and suggestions for brand owners and legal practitioners to consider in their CSR business transactions.

II. Laws and Regulations Relevant to CSR

There are multiple state, federal, and international laws and regulations mandating compliance with certain social and environmental principles. Companies participating in CSR activities should focus on the following:[4]

A. Human Rights and Fair Labor

- **California Transparency in Supply Chains Act of 2010**: Requires retailers and manufacturers doing business in California and having annual worldwide gross receipts that exceed $100 million to disclose "efforts to eradicate slavery and human trafficking from its direct supply chain for tangible goods offered for sale."[5]
- **U.K. Modern Slavery Act of 2015:** Requires companies doing business in the U.K. with annual gross worldwide revenues of £36 million (approximately $49 million) to publish an annual "slavery and human trafficking statement."[6]
- **Other anti-slavery laws:** Other countries such as France and Australia as well as states such as New York have enacted (or will soon enact) anti-slavery laws that can also impact CSR activity and associated transactions.[7]
- **Federal Fair Labor Standards Act:** Sets minimum wage and other fair labor standards, including the prohibition of child labor.[8]
- **Federal prohibition on imports of forced labor goods:** The U.S. Tariff Act prohibits the import of goods produced by forced, slave, or child labor and subjects the goods to seizure and forfeiture by U.S. Customs and Border Protection (CBP).[9]
- **Federal regulations and California law on "Made in the USA" standards:** Federal regulations require that product imported into the United States be marked with its country of origin.[10] Those products promoted as "Made in USA" must meet the "all or virtually all" standard (i.e., the significant parts

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or processing that go into the product must be of U.S. origin) and similar standards under California law.[11]

- **Countering America's Adversaries Though Sanctions Act of 2017:** CBP has been requesting that companies complete CF-28s to provide supply chain verification that no North Korean labor or forced labor is used.[12]
- **Federal and European Union conflict mineral regulations:** Federal regulations require companies filing reports with the U.S. Securities and Exchange Commission (SEC) to disclose use of "conflict minerals" mined from the Democratic Republic of Congo and nine adjoining countries.[13] The EU has implemented conflict mineral disclosure requirements for EU importers effective January 1, 2021.[14]

B. Consumer Safety and Environmental

- **Toxic Substances Control Act (TSCA):** Governs the production, importation, use, and disposal of specific chemicals identified by the U. S. Environmental Protection Agency (EPA). The statute requires companies to provide "pre-manufacture notice" of new chemicals; requires testing of chemicals by manufacturers, importers, and processors; requires notice when new uses are found for existing chemicals; and requires importers and exporters to comply with certain reporting and other requirements. EPA maintains the TSCA Inventory, a listing of over 83,000 substances that are regulated under the act.[15]
- **REACH:** Requires companies that manufacture and market chemicals to identify and manage the risks associated with the chemicals they manufacture or market within the European Union. Companies must demonstrate to the EU how the substance itself or as used in an article or mixture may be safely used and also communicate risk management measures to consumers.[16]
- **EU Timber Regulation:** Prohibits placing illegally harvested timber and products derived from illegal timber into the EU market. The regulation imposes requirements on timber products, including due diligence that the source is legal and record-keeping that includes the source of the timber product and the identity of the subsequent purchaser.[17]
- **California Safe Drinking Water and Toxic Enforcement Act ("Proposition 65"):** Requires businesses to provide warnings for products that expose consumers to chemicals known to the state of California to cause cancer, birth defects, or other reproductive health problems. California has identified over 800 chemicals that require such a warning. Violators face potential civil penalties (up to $2,500 per day per violation) and attorneys' fees. New warning regulations take effect in August 2018 and address the allocation of responsibility between retailers and manufacturers for providing the warnings.[18]

III. Repercussions of Non-Compliance

Failure to abide by compliance laws or consumer expectations can result in litigation, steep fines, recall of products, and ultimately damage to brand reputation. For example, the U.S. Consumer Product Safety Commission has levied multi-million dollar civil penalties against companies for failing to report defective products. These violations are often due to failures to monitor or consider risks in supply chains. In 2009, Mattel faced a massive product recall and a $2.3 million fine for lead in toys that were manufactured by a contractor in China.[19] The matter also resulted in a multi-district consumer class action lawsuit against Mattel that eventually settled for approximately $50 million.[20]

Doing business in California, in particular, requires caution to avoid running afoul of the state's broad consumer protection laws. In 2016, businesses paid over $30 million to settle Proposition 65 violations, of which over $21 million was for attorneys' fees.[21] Similarly, disclosures required under the California Transparency in Supply Chains Act have triggered a number of consumer class action suits in California federal court based on alleged inadequate or misleading corporate disclosures about the use of forced labor in global supply chains, including for seafood sourced from forced labor off the coast of Southeast Asia and child labor on cocoa plantations in the Ivory Coast.[22] Cases have been dismissed, but not before costly motion practice and negative publicity. Moreover, in February 2018, similar class action suits were filed in Massachusetts federal court against companies for alleged failure to disclose the use of child labor in the extended supply chain in the chocolate industry in violation of the Massachusetts Consumer Protection Act.[23]

IV. Key Transaction Considerations for CSR Participants: Avoiding Non-Compliance and Preserving Brand Value

A. Quality Assurance, Compliance, and Controls

Brand owners have a duty to control the quality of the goods or services offered under their marks, while consumers expect companies to manufacture products ethically and sustainably. Traditionally, trademark owners have used licensing to outsource the entire production or distribution process to third parties. To mitigate the risk posed by insufficient quality control or compliance in violation of laws or a company's voluntary CSR efforts, the documents that control the business relationship should contain, at a minimum, terms giving the brand owner the power to engage in quality control, e.g., the right to inspect and review the goods and services offered and to require compliance efforts and verification. In short, for domestic and international activities, especially when the geographic and cultural distances are such that day-to-day exchanges and monitoring are difficult, it is crucial to build into any CSR relationship an appropriate level of quality control and compliance verification with specific benchmarks that are reasonable and will likely be met.

Provisions pertaining to quality control and CSR efforts frequently include:

- retention of approval rights prior to, during, and after manufacturing, sale, and use;
- approval of all (or new) channels of distribution;
- reservation of the right to disapprove of any or all products not complying with the "standards of manufacturing" or "established as the standard in the industry or trade for the licensed products" including advertising and marketing of licensed products;
- required approval of pre-production samples and post-production samples;
- specifying dates by which the licensee should submit all samples, to whom they should be submitted, and by when approval will be given;
- compliance with specific grade and quality of materials to be used and ensure safety and restricted substances product testing is performed;
- the right to audit manufacturing facilities to ensure compliance with working hours, labor laws, environmental laws, facility compliance, quality control checks, etc.;
- reservation of the right to require the licensee to recall any/all products if they do not meet requirements in the license agreement;
- reservation of the right to monitor the licensee's sales activity and distribution, including Internet and social media activity;
- reservation of the right to review employee complaints;
- reservation of the right to inspect the factory where the products are being made at any given point in the production and distribution process;
- requiring that remedial action be taken for any breach of the foregoing provisions.

Once quality-control provisions have been established, both parties typically benefit from instituting a system to track compliance. In addition to tracking compliance with quality standards and regulatory regimes, brand owners conducting CSR activity should monitor for quantity of production and consider utilizing third-party labels or other detection devices to validate the quantities of licensed products manufactured by their licensees. These labels not only help verify the amounts produced but also help with brand enforcement. Such labels or coding can likewise be useful to monitor for control of the quality of products sold under the brand associated with the CSR activity.

B. Co-Branding Arrangements as a CSR Activity

Co-branding arrangements in CSR arise when two distinct brand owners decide that their brands can work together and/or complement each other in connection with a particular cause or other socially responsible activity. Typical co-branding agreements involve two or more companies that agree to cooperate and to brand the product with multiple brands or logos, color schemes, or other brand identifiers where one brand is a charitable, social, or environmental cause. One example of co-branding in the CSR space is Major League Baseball and Susan B. Komen (cancer awareness).[24] While co-branding efforts in the CSR context are often successful, brand owners should consider potential disadvantages as well, including the following:

- **Negative associations.** If one brand suffers damage to its reputation for quality or is associated with negative publicity, there is a risk that the other brand will be negatively affected.
- **Dilution.** This occurs when consumers no longer see independent brands and associate the two brands as one, thereby diluting the value of the brands standing alone, with each brand losing its distinctiveness in the marketplace.
- **Financial issues**. Co-branding arrangements may be associated with complex joint-venture and/or profit-sharing provisions that might take a long time to negotiate—and, if the brands ever want to separate, unravel.
- **Negative consequences**. Brand participation in CSR is not without risk that the CSR activity meant to benefit a community actually results in harmful consequences, e.g., shutting down or reducing the need for the local business providing similar goods or services or inappropriate use of the branded goods/services for unintended purposes.

A delicate balancing act is required for any co-branding CSR venture to achieve not only the short-term goals for success but also minimizing risk and exposure to the brands from any termination. Whatever legal and financial agreements at which the brand owners arrive, a sharing of risk and an equitable financial approach is imperative.

V. Practical Tips To Successfully Build a CSR Program and Maintain Brand Value

The following are some practical suggestions that should serve to protect your brand equity and build a CSR program:

- Establish a compliance program based on your company's business and operational risks associated with the CSR objectives. Obtain CEO, Board, and Senior Management buy-in for the key issues related to the business challenges. Identify the legal requirements for your CSR business program and determine the expectations of key stakeholders, investors, and your customers.
- Map your company's extended supply chain for the anticipated CSR program and understand the key material issues and risks associated with each stage of design, production, procurement, logistics, and selling to the customer.
- Determine and communicate what your business practices and expectations are with your suppliers and your internal business teams. Many companies use Codes of Conduct and Brand Guidelines to educate the suppliers and business teams on these matters, especially for implementing a CSR program.
- Implement a plan to audit suppliers, determine if suppliers have issues, and implement a remediation plan, if needed, to address the compliance gaps.
- Ensure your non-legal employees and yours and/or your partner's respective sales, production, and distribution teams understand the contracts and purchase orders associated with the CSR activity, including those provisions concerning the importance of protecting the brand's equity as well as those mandating legal compliance with applicable statutes and requirements.
- If your company plans to report its CSR efforts or use sustainable labeling or marks on products and services, ensure the data and statements are vetted, confirmed, and genuine. The statements or claims must be consistent with company filings and regulations to avoid litigation based on alleged misstatements or viewed as "greenwashing."
- Consider certifying your company as a "B-Corp." This certification is issued to companies that meet certain social and environmental standards and accountability. Currently, over 2000 companies are B corporations.[25]

VI. Conclusion

"We do this because it's the right thing to do."

—Apple[26]

Consumer, investor, and employee expectations are continuing to shape CSR practices even in the absence of legal requirements, and brand owners need to respond. Most companies recognize that CSR is good for the brand and society as a whole and that risk management is one key component of successful CSR programs, along with quality-control practices and procedures. Practitioners need to understand these new CSR opportunities and help companies align their CSR objectives and business transactions with the legal compliance requirements as well as consumer and market expectations as they continue to evolve.

Endnotes

1. Philip Kotler & Nancy Lee, Corporate Social Responsibility: Doing the Most Good for Your Company and Your Cause (Dec. 2005) at 3.
2. BSR, Redefining Sustainable Businesses (Jan. 2018) at 12, available at https://www.bsr.org/reports/BSR_Redefining_Sustainable_Business.pdf.
3. The Nielsen Company, Doing Well by Doing Good, Nielsen Global Survey of Corporate Social Responsibility (June 2014), available at www.nielsen.com/us/en/insights/reports/2014/doing-well-by-doing-good.html.
4. We do not purport to identify all laws and regulations that are relevant to CSR.
5. Cal. Civ. Code §1714.43 (a) (1); *see also* The California Transparency in Supply Chains Act: A Resource Guide (2015) published by the California Attorney General's Office, available at https://oag.ca.gov/sites/all/files/agweb/pdfs/sb657/resource-guide.pdf.
6. *See Slavery and Human Trafficking in Supply Chains: Guidance for Businesses*, published by the U.K. government and available at https://www.gov.uk/government/publications/transparency-in-supply-chains-a-practical-guide and http://www.legislation.gov.uk/ukpga/2015/30/contents/enacted.
7. *See* Law No. 2017-399 (France "Duty of Vigilance Law") (March 27, 2017); *Hidden in Plain Sight, An inquiry into establishing a Modern Slavery Act in Australia*, published by the Parliament of the Commonwealth of Australia, available at https://www.aph.gov.au/Parliamentary_Business/.../ModernSlavery/Final_report; N.Y. Penal Law §§135.35, 230.34; summary of New York State Anti-Trafficking Law, published by the New York Anti-Trafficking Network, available at https://swp.urbanjustice.org/sites/.../20071212-NYATNNYSTraffickingLawFS.pdf.
8. 29 U.S.C. §§ 201, *et seq.*; *see also Handy Reference Guide to the Fair Labor Standards Act*, published by the U.S. Department of Labor, available at https://www.dol.gov/whd/regs/compliance/hrg.htm.
9. 19 U.S.C § 1307.
10. 19 U.S.C. § 1304.
11. *See Complying with the Made in USA Standard* published by the Federal Trade Commission, available at *https://www.ftc.gov/tips-advice/business-center/guidance/complying-made-usa-standard#standard;* Cal. Bus. & Prof. Code § 17533.7.
12. P.L. 115-44; *see also* Resource Center information published by the U.S. Department of Treasury, https://www.treasury.gov/resource-center/sanctions/Programs/Pages/caatsa.aspx.
13. P.L. 113-203; *see also* Fact Sheet published by the U.S. Securities and Exchange Commission, available at https://www.sec.gov/opa/

Article/2012-2012-163htm---related-materials.html and Statement of Acting Chairman Piwowar on the Court of Appeals Decision on the Conflict Minerals Rule (Apr. 7, 2017), available at https://www.sec.gov/news/public-statement/piwowar-statement-court-decision-conflict-minerals-rule announcing suspension of certain requirements in light of *Nat'l Ass'n of Mfrs, et al., v. SEC*, 800 F. 3d 518, 530 (D.C. Cir. 2015), which stuck down portions of the law on free speech grounds.

14. *See* European Commission explanation of conflict mineral regulations, available at http://ec.europa.eu/trade/policy/in-focus/conflict-minerals-regulation/regulation-explained/.

15. 15 U.S.C. §§ 2601, *et seq.*

16. *See* Regulation (EC) No. 1907/2006 of December 18, 2006 available at https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A02006R1907-20140410; Additional EU-REACH guidance available at https://echa.europa.eu/support/guidance.

17. *See* Regulation (EU) No. 995/2010 of the European Parliament and of the Council of 20 October 2010 available at http://ec.europa.eu/environment/forests/timber_regulation.htm.

18. Cal. Health & Saf. Code § 25249.5 *et seq.*; *see also Proposition 65 Law and Regulations*, published by the California Office of Environmental Health Hazard Assessment, available at https://oehha.ca.gov/proposition-65/law/proposition-65-law-and-regulations; see also https://oehha.ca.gov/proposition-65/crnr/notice-adoption-article-6-clear-and-reasonable-warnings.

19. *See* Louise Story and David Barboza, *Mattel Recalls 19 Million Toys Sent from China*, The New York Times (Aug. 15, 2007), available at http://www.nytimes.com/2007/08/15/business/worldbusiness/15imports.html; Mattel to Pay $2.3 Million Penalty for Lead in Toys, Bloomberg News (June 5, 2009), available at http://www.nytimes.com/2009/06/06/business/06bizbrief-MATTELTOPAY2_BRF.html.

20. *See* Tresa Baldas, *Lead-Tainted Toys Push Mattel into $50 Million Settlement; Plaintiffs Firms to Get $13 Million*, National Law Journal, available at https://www.law.com/nationallawjournal/almID/1202434605919/Lead-Tainted-Toys-Push-Mattel-Into-50-Million-Settlement%3B-Plaintiffs-Firms-to-Get-13-Million/.

21. *See* California Department of Justice Annual Reports of Proposition 65 Settlements, available at https://oag.ca.gov/prop65/annual-settlement-reports.

22. *See, e.g., Hodsdon v. Mars, Inc.*, Case No. 3:15-cv-04450-RS (N.D. Cal.); *Wirth, et al. v. Mars, Inc., et al.*, Case No. CV 15-1470-DOC (KESx) (S.D. Cal).

23. *See, e.g., Tomasella v. The Hershey Co.*, Case No. 1:18-cv-10360 (D. Mass.).

24. *See* https://ww5.komen.org/Major-League-Baseball/.

25. *See* https://www.bcorporation.net/.

26. Todd C. Frankel, *Why Apple and Intel Don't Want To See the Conflict Minerals Rule Rolled Back*, The Washington Post (Feb. 23, 2017), available at https://www.washingtonpost.com/business/economy/why-apple-and-intel-dont-want-to-see-the-conflict-minerals-rule-rolled-back/2017/02/23/b027671e-f565-11e6-8d72-263470bf0401_story.html?utm_term=.4f4c0446c56e.

Determining a Reasonable Licensing Fee for Purposes of Copyright Damage Awards

By Scott J. Sholder and Lindsay R. Edelstein

I. Introduction

On November 2, 2017, Southern District Judge Jesse M. Furman handed down a decision in *Barcroft Media, Ltd. et al. v. Coed Media Group, LLC*,[1] that clarifies that the "reasonable licensing fee" used in the determination of an actual and/or statutory damages award under the Copyright Act is not the "highest fee" any entity paid for the work at issue but rather the fee the defendant would have paid for the work at issue given factors including, but not limited to, the size and circulation of the defendant's publication, the publication date, and the medium (i.e., print, TV, or online). Prior to this ruling, it had been unclear whether a reasonable licensing fee should be determined by comparing "apples to apples," i.e., fees paid by entities similar in size and type, or "apples to oranges," i.e., using the highest fee paid for the work at issue as a point of reference without regard to the gap between what differing entities pay for the same work.

The court's decision on damages also illuminated the effect that the parties' conduct—before and during litigation—can have on a statutory damages award. The court's subsequent decision denying the plaintiffs' motion for attorneys' fees took this factor into account as well.

This article discusses issues examined in *Barcroft*—which the authors litigated on the defense side—including the court's assessment of damages and attorneys' fees—as well as questions confronted by attorneys faced with similar claims by copyright owners.

II. Calculating Damage Awards in Copyright Infringement Cases

While the proliferation of blogs, news and entertainment websites, and social media in the last two decades has facilitated the widespread dissemination of information, purveyors of such websites have struggled to keep up with the ever-evolving rules relating to the use of photographs and other content under the Copyright Act. Given the speed with which the public consumes information in the digital age, as well as the amount of information consumed, the use of photographs in online news reporting is essential; text-only articles are largely a thing of the past.

While common practices in the digital media realm that are widely believed to comport with copyright law have been treated as acceptable among industry insiders—such as traffic-sharing, taking screenshots of a licensed photograph or otherwise using the photograph with proper accreditation, and using unlicensed thumbnail versions of images that link to licensed photographs—such defenses do not always hold up in court. If the copyright owner establishes liability, a court or a jury then must determine damages, and for small companies and independent blogs, a large damage award could spell financial ruin.

Under the Copyright Act, a copyright owner can elect to recover either statutory damages or actual damages and profits.[2] Actual damages represent the lost sales or profits the copyright owner would have obtained from the sale or license of the infringed work "but for" the defendant's infringement: in other words, a "reasonable, retroactive license fee."[3]

Statutory damages, on the other hand, are meant to "discourage wrongful conduct" as well as to provide "reparation for injury."[4] The amount of a statutory damages award is ultimately within the discretion of the court,[5] but the Copyright Act sets the minimum award at $750 per work infringed, with the maximum award being $30,000.[6] If the court finds that the infringement was willful, it may award up to $150,000 per work infringed.[7] If, on the other hand, the infringer "was not aware, and had no reason to be aware" its acts constituted infringement, the court may reduce the award to $200.[8] Damages at the top of the statutory spectrum are rare, particularly in cases involving photographs. Courts typically base the award on a benchmark of a reasonable license fee multiplied by three or five and rounded up, if necessary, to the $750 statutory minimum.[9]

Courts have found that damage awards amounting to three to five times the plaintiff's licensing fee are "adequate both to deter the defendant from violating copyright law in the future, and to serve as a general deterrent to other potential infringers."[10] While this may seem like a straightforward calculation, it is, in reality, complicated given the parties' often dueling expectations concerning the inherently fact-specific task of ascertaining a "reasonable" licensing fee. The language courts have used in determining a reasonable license fee has, at times, been inconsistent. In *Erickson Productions, Inc. v. Only Websites, Inc.*, for example, the court found a licensing fee of $3,750, the "fee the plaintiffs charge typically to those who wish to obtain online usage of an Erickson copyrighted photograph," not taking into account what the defendant, Only Websites, would have paid.[11] Similarly, in *Broadcast Music, Inc. v. Prana Hospitality, Inc.* the court awarded

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plaintiff statutory damages representing "approximately five times the sum of BMI's unpaid licensing fees."[12] While the court explained that this corresponded to the amount the defendants would have paid for licenses to publicly perform the copyrighted musical works at issue, the court did not draw a distinction between the amount sought from the defendants and the amount the defendants would have actually paid.

Even the decision in *FameFlynet, Inc. v. Shoshanna Collection, LLC*, upon which the *Barcroft* court heavily relied, skirted the issue of whether the reasonable license fee is the highest fee anyone would have paid for the allegedly infringing use or the fee the defendant would have paid.[13] In that case, two photographs of actress Emmy Rossum were published by E! Entertainment Online, which paid the plaintiff a license fee of $75 for the photos.[14] The same photographs later appeared on the defendant's website. While the court stated that "courts in this Circuit commonly award...statutory damages of between three and five times the cost of the licensing fees *the defendant would have paid*,"[15] the court concluded that "the customary damage award would entitle Plaintiff to $225 (*i.e.*, three times *Plaintiff's highest license fee of $75*)" and noted that the parties "do not dispute that the highest license fee for the Photos was $75 and was provided by E! Entertainment."[16] Had the court truly set the reasonable fee at what the defendant, Shoshanna Collection, would have paid, it might have considered the monthly unique users of the website as compared to EOnline.com as well as the fact that the photographs were discovered on defendant's website months after their initial publication on EOnline.com, when the photographs had less value.

Given this uncertainty, digital content providers are often at a loss to determine the cost-effectiveness of litigation. Aggressive plaintiffs may throw around damages numbers of $30,000 to $150,000[17] and also may demand an amount to account for accrued attorneys' fees depending on the stage of litigation.

Defendants, on the other hand, will either assert that they owe nothing, based on fair use and other defenses (and sometimes will argue that the plaintiff should pay the defendant's attorneys' fees for filing a lawsuit advancing objectively unreasonable arguments),[18] or that they owe three to five times the license fee the defendant would have paid for the use in question.

Against this backdrop—with little clarity as to whether a reasonable license fee is based on the "highest fee paid to plaintiff," the "amount to purchase a license," or what "the specific defendant would have paid for the use"—the plaintiffs in *Barcroft* demanded $41,500 in statutory damages from Coed Media, a small media company comprised of approximately 10 employees, on the theory that Coed Media would have paid the same license fees as *People Magazine* and TMZ TV.

III. *Barcroft* Background

The suit against Coed Media, the proprietor of pop-culture news websites coed.com, collegecandy.com, and bustedcoverage.com, was filed in September 2016 in the Southern District of New York by Barcroft Media, Ltd. and FameFlynet, Inc., purveyors of entertainment-related photojournalism and the owners of certain copyrighted celebrity and human-interest photographs.

Like many entities maturing in the digital age, Coed Media did its best to keep up with evolving practices concerning the use of third-party digital content. From 2014 to 2016, Coed Media published four images owned by Barcroft (registered within two compilations and thus constituting two "works" under the Copyright Act) and eight images owned by FameFlynet (registered within five compilations and thus constituting five "works").[19] The photographs featured entertainers Amanda Bynes, Selena Gomez, Zooey Deschanel, Salma Hayek, and Lea Michele as well as non-celebrities (and human-interest subjects) John Loughrey and Janet Horrocks. In their complaint, the plaintiffs sought statutory damages of up to $150,000 per infringement.[20]

Before filing the action, FameFlynet sent Coed Media a cease-and-desist letter referencing six of the images, which Coed Media removed from its website shortly thereafter. After being contacted by FameFlynet, Coed Media even purchased a license from FameFlynet covering the use of 100 images for $1,000, roughly $10 per image.

During discovery, the plaintiffs produced a spreadsheet tracking various "invoices" detailing the prices paid by various media entities for use of the photographs at issue. The spreadsheet showed a wide range of fees paid by different entities to use the same image. For example, for the same image of Bynes, *People Magazine* paid $8,000, TMZ.com paid $3,400, and popsugar.com paid $255.[21]

Some of the images at issue in *Barcroft* were used on Coed Media's websites in collages that were meant to direct visitors to sites containing the original images; some were thumbnails also used as hyperlinks; others were screenshots from videos that provided commentary on the content of the images themselves; and others were cropped and used for different purposes altogether, including commentary on the latest celebrity fashion trends. Coed Media asserted a fair use defense, which it had asserted successfully in another case[22] and which had prevailed in other analogous cases.[23]

In their pretrial briefing, the plaintiffs contended that they were entitled to $41,500 (derived by multiplying the highest licensing fee paid for each image on the date it was purportedly published by Coed Media by five, or—if the highest fee for any particular image fell below the minimum statutory damages amount of $750—multiplying $750 by five), while Coed Media argued for an award of $4,350. The parties agreed that if Coed Media were found

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The Past-Chair's Panel, from left to right, with years as chair: Rory J. Radding (1992-1994), Michael I. Chakansky (1998-2000), Victoria A. Cundiff (2000-2002), Marc A. Lieberstein (2002-2004), Richard L. Ravin (2004-2006), Kelly M. Slavitt (2012-2014), Paul M. Fakler (2010-2012).

Past-Chairs Panel in Honor of Section's 25th Anniversary of the Annual Meeting

By Michael I. Chakansky

The chair of the Intellectual Property Law Section serves a two-year term—many NYSBA Section chairs serve for only one year. The longer term was intentional. It was felt that two years would allow chairs enough time to implement their individual visions for the Section. In that way, the Section would adapt to changes in intellectual property and its intersection with the real world, at least from the perspective of the chair. With that in mind, I thought it would be useful to have a number of past chairs, each with his or her individual viewpoints and experiences, discuss what he or she thought was important about the Section and also share some "wisdom" with the intellectual property practitioners present at the meeting. Thus, the concept of the Past-Chairs Panel was formed.

As to some of the "wisdoms" the past chairs chose to disclose, they spanned a very wide territory, just like intellectual property law itself, as summarized briefly below.

Michael Chakansky: The foundation of IP lies with patents, trademarks, copyrights, and trade secrets. These types of IP form the foundations for all but *sui generis* intellectual property rights, and the practitioner would be well served to consider their impact in all IP considerations.

Rory Radding: Embrace the new technologies and investigate how they should be protected using each of the types of IP. Never stop using your imagination in addressing intellectual property issues. Try to solve the client's business problem using the legal tools available.

Marc Lieberstein: Consider the relationship of franchise law to intellectual property.

Victoria Cundiff: Increasingly, precedents from one area of IP law are informing how the courts may decide issues in other types of IP law; for example, trademark and copyright precedents are informing patent decisions, and trade secrets damages decisions are influencing patent cases. In order to be able to assess whether this is a good or bad idea, and to prevent being blindsided, you need to keep up with all areas of IP law. If one type of IP protection appears too limited, try another type or types.

Richard Ravin: The importance of keeping abreast of changes in internet law.

Paul Fakler: The complex considerations accorded the various copyrights appurtenant to music services.

Kelly Slavitt: The impact of advertising on the in-house practice of IP.


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SLAVITT


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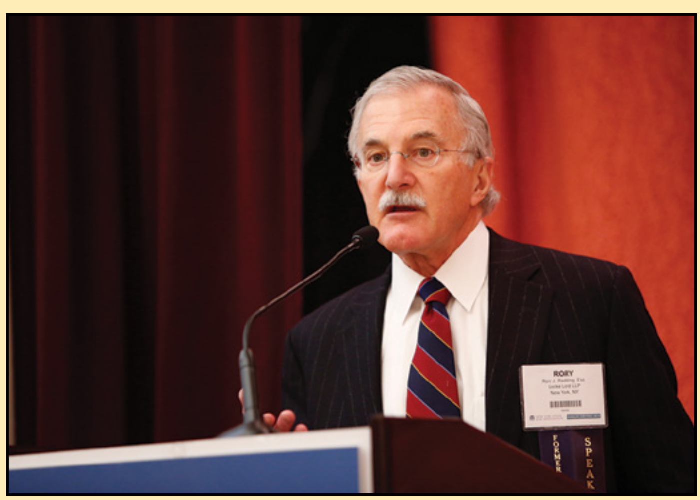
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2018 IPS Annual Meeting

This year's Annual Meeting program was titled *Cutting Edge Intellectual Property Issues: Tools to Protect Your Client in the Ever Faster-Changing IP Landscape*, and included topics on *Brands, Corporate Social Responsibility, and Maintaining Goodwill; Web Analytics in IP; The Interplay Between Litigation and Post Grant Trials at the PTO and Update on PTAB Practice; Rights, Camera, Action: IP Issues Associated with Documentaries and Biopics;* and more.

Other topics at the 2018 Annual Meeting program included *Current Decisions and Events Impacting IP—Recent Case Discussions and Changes Impacting Your Practice; Intellectual Property Ethics in a Changing Landscape; and Copyright Litigation: The Year in Review.*

NYSBA

Copyright Damage Awards

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liable, the plaintiffs would be entitled to an actual damages award for Coed Media's use of four images of actress Amanda Bynes that had not been timely registered and statutory damage awards for the other images.[24]

At trial, the plaintiffs' sole witness, Randy Taylor, was cross-examined about the invoice spreadsheet, including as to whether certain licenses were exclusive or non-exclusive, whether the specific licenses were for print or online use (or both), and whether each license was for multiple photographs or for only a single photograph within a set. Because Taylor neither negotiated the licenses for the photographs at issue nor prepared the invoices, he could testify only about licensing arrangements in general and the general effect of non-licensed use on the market for photographs.

Taylor acknowledged that recognizable brands with higher circulations—such as TMZ, E! Online, *People Magazine*, and *Cosmopolitan*—generally pay higher license fees than smaller websites with much smaller reach like Coed Media's properties. The invoices themselves showed that the fees paid for TV and print uses and by more well-known entities such as TMZ, *Us Weekly*, or E!, were significantly higher and typically represented the highest fee paid for an image. Among the publications that purchased plaintiffs' photographs, popsugar.com—which had paid $255 for the Amanda Bynes images—was "similar enough" to Coed Media, Taylor testified.

The plaintiffs declined to question any of Coed Media's five witnesses, so Judge Furman himself inquired as to Coed Media's policies regarding image use as well as its licensing arrangements with stock photography agencies.

IV. The Damages Determination

Ultimately, the court held that although Coed Media's conduct was not willful, its fair use defenses fell short, entitling plaintiffs to injunctive relief and actual and statutory damages.[25] Most noteworthy, however, is the modest damages the court awarded and the clarity with which it defined the reasonable license fee standard.

The court found that the statutory damages awards for the Hayek, Deschanel, Michele, Gomez, Horrocks, and Loughrey images should be the statutory minimum of $750 or five times the reasonable licensing fee, whichever was greater. The court explained that a reasonable licensing fee is the "fair market value of the [i]mages to a licensee *in [Coed Media's] position at the time of the infringements*"—essentially rejecting the plaintiffs' contention that they were entitled to the greater of five times the minimum statutory amount or five times the highest licensing fee any entity paid for the image on the date it was purportedly published by Coed Media.[26] The court opined that the plaintiffs' theory was "based on an erroneous reading of case law and the function of the statutory minimum, which sets a damages floor for an infringing use and is not intended to substitute for a reasonable license fee, the amount that is generally increased by a multiplier to set appropriate statutory damages."[27]

Accordingly, the court looked to the plaintiffs' invoices and to Taylor's testimony to determine a reasonable license fee for each image (or set of images). The court noted that, as a result of the plaintiffs' failure to call any witnesses with knowledge about the specific licensing arrangements for the images at issue and the inconsistency of the testimony of the plaintiffs' only witness, the plaintiffs had "largely fail[ed] to demonstrate" that they were entitled to damages "based on the higher end of the range of fees reflected in their spreadsheets."[28]

For example, the plaintiffs argued that the reasonable licensing fee for the Horrocks images was $2,500[29] because *Closer* magazine had paid approximately that much to use the images around the same time they were published by Coed Media. Accordingly, after applying the five-times multiplier, the plaintiffs sought $12,500 in statutory damages for Coed Media's use of the Horrocks images. Based on the trial record, the court disagreed. Noting that the plaintiffs' invoices reflected that the images had been licensed to *Closer* magazine for £2,500, the *Daily Mirror* newspaper for £800, and Cosmopolitan.com for £60, and considering that Taylor had testified that Cosmopolitan was "a 'better known brand' than [Coed Media]," which suggested that the plaintiffs "would have been unlikely to command a higher fee from [Coed Media],"[30] the court found that £60 (or $78.65 using the then-current conversion rate) was a reasonable licensing fee and awarded a total of $750—the statutory minimum—for the Horrocks images.

The court found that the five-times multiplier, with no upward adjustment, sufficiently compensated the plaintiffs once the court accounted for: the fact that, after receiving FameFlynet's cease and desist letter, Coed Media sought to license FameFlynet's content and took down the complained-of images shortly thereafter; the trial testimony concerning Coed Media's practices to ensure that content on its websites is properly licensed; and the plaintiffs' lackadaisical approach to enforcing its copyrights with respect to some of the images at issue.[31]

After considering all the above factors, the court used the plaintiffs' invoicing spreadsheets to determine the fees paid by websites similar in size and type to Coed Media's properties and multiplied that fee by five, ultimately awarding $10,625 in statutory damages.[32]

To determine the actual damages award for the Bynes photographs, the court used a similar analysis but without the multiplier it used to calculate statutory damages. The plaintiffs originally sought $8,000 for Coed Media's use of the Bynes images, the same fee paid by *People Magazine*.[33] The court ultimately awarded $255 based on the testimony that popsugar.com, which had paid $255 to license the images, was similar to Coed Media in circulation, reputation, and name recognition.

In total, the court thus awarded plaintiffs $10,880 in damages. While the court noted skepticism regarding the plaintiffs' entitlement to attorneys' fees based on Coed Media's post-trial briefing, he allowed the parties the opportunity to brief the issue.

V. Attorneys' Fees

To determine whether to award attorneys' fees to a prevailing party in a copyright case, the court must assess several non-exclusive factors, including "frivolousness, motivation, objective unreasonableness . . . and the need in particular circumstances to advance considerations of compensation and deterrence."[34] In *Kirtsaeng v. John Wiley & Sons, Inc.*, the Supreme Court recently clarified that a district court "may not 'award [ ] attorney's fees as a matter of course'; rather, a court must make a more particularized, case-by-case assessment."[35] The plaintiffs nevertheless argued that the court should simply award fees "as a matter of course"[36] and that they were entitled to a fee award based on the *Fogerty* factors.[37] The plaintiffs also argued that where, as here, the damages award was low, deterrence and compensation were appropriately served by an award of fees.[38]

Coed Media opposed the motion and sought sanctions pursuant to 28 U.S.C. § 1927 based on the plaintiffs' abusive litigation tactics as well as on Coed Media's reasonable belief that its defenses would prevail and its good-faith attempts to settle.

The court denied the plaintiffs' motion, rejecting their contention that fees should be awarded routinely in copyright cases and pointing out that the cases they cited for this proposition had been abrogated by *Kirtsaeng*.[39]

With regard to the first *Fogerty* factor, objective unreasonableness, the court opined that Coed Media's defenses were not so frivolous or objectively unreasonable that no party "could see an opening...through which the argument[s] could be squeezed."[40] The court acknowledged that fair use turns on "a fact-intensive, multifactor inquiry...that may well have made it difficult for Coed Media to assess over the course of the litigation its likelihood of success on the merits."[41]

The court also found that Coed Media's litigation conduct did not evince an improper motive, noting that its original settlement offer was within a few thousand dollars of the amount it was ultimately ordered by the court to pay and that the plaintiffs failed to point to a single settlement demand they made during the litigation.[42] In fact, the court observed that it was the plaintiffs who engaged in "troubling litigation tactics," including filing a "boilerplate complaint" containing claims relating to images that they did not own or that were published by nonparties; taking months to amend the complaint to remove those images despite acknowledging that they were included improperly; serving perfunctory or nonresponsive discovery responses; denying to both Coed Media and to the court that certain discovery existed, only to provide it to Coed Media in advance of later settlement talks; dedicating its pre-trial memorandum almost entirely to establishing the validity of its copyrights and Coed Media's unauthorized use—even though those points were essentially conceded from the outset—and paying next to no attention to the core issues in the case, fair use and damages; filing a borderline frivolous motion for spoliation sanctions; forcing Coed Media to incur the expense of preparing its witnesses and bringing them to trial by representing that they intended to cross-examine them and then declining to do so; and failing almost entirely to support their inflated damages claims.[43]

With respect to compensation and deterrence, the court conceded that "[n]o doubt there are some cases in which attorney's fees would be warranted to compensate plaintiffs whose damages are not commensurate with the costs of litigation or to deter defendants from future misconduct[,]"[44] but it ruled that, in this case, the court had already factored compensation and deterrence into the statutory damages calculation.[45] The court also determined that principles of deterrence did not move the needle in the plaintiffs' favor because Coed Media promptly took down all potentially infringing content from its websites and implemented mechanisms to prevent future infringement.[46] Accordingly, the court rejected the argument that a fee award was a foregone conclusion simply because the statutory damages award was modest (or lower than the plaintiffs would have hoped for).

VI. Conclusion

While the *Barcroft* decision offers a clear framework for determining a reasonable license fee and an appropriate statutory damages award, there are still unpredictable variables for defendants to heed. Being merely the opinion of one district court, *Barcroft* is not, of course, binding on other courts in the Second Circuit (or elsewhere). It is, however, persuasive and extremely useful even outside the circuit as a clear example of where courts may lean, but it is far from the last word on the topic, and judges in other jurisdictions may not necessarily agree. Also, it may not necessarily apply outside the realm of image licensing.

Moreover, if the court finds that the defendant's infringement was willful, it may, as noted, award up to $150,000 per work.[47] However, even if the court finds willfulness, the authors are unaware of any decision in which the court awarded $150,000 for online infringement of a photograph.[48]

Because section 505 of the Copyright Act authorizes fee-shifting, plaintiffs will continue to use the specter of an attorneys' fee award to try to intimidate defendants into settling for an amount above the court's customary damages award but below the cost of litigating through trial. This is a typical and predictable strategy and one that has turned into a common business model for many serial litigants and high-volume plaintiffs' firms alike.

One way Congress has recently been attempting to reduce the uncertainty and financial burden of copyright litigation over relatively small amounts is through the creation of a copyright small claims court, as proposed in a House Bill introduced on October 4, 2017, and currently under consideration. The bill would provide an alternative forum for lower-value copyright claims, with a total cap on liability of $30,000 in any one proceeding. There also would be no fee-shifting; the parties would bear their own costs, and representation by a lawyer would not be necessary.

Until the House bill is enacted or the courts establish predictable benchmarks for statutory damages awards and consistently deny attorneys' fee awards to aggressive plaintiffs even in the face of modest statutory awards, the legal landscape in this sector will remain a minefield for content users. In the meantime, website operators, digital media companies, and other users of content online should err on the side of caution in displaying visual content outside a trusted licensing source; should educate employees who post content about risks and best practices related to copyright infringement; and should set firm internal guidelines to ensure compliance with copyright law. When in doubt, before using content that is not clearly licensed, it is best to consult with knowledgeable copyright counsel to help reduce the risk.

Endnotes

1. *Barcroft Media, Ltd. v. Coed Media Grp., LLC*, No. 16 Civ. 7634 (JMF), 2017 WL 5032993 (S.D.N.Y. Nov. 2, 2017).
2. 17 U.S.C. § 504(a), (c). "Profits" are typically not awarded in cases involving image use on blogs because there are generally no profits directly attributable to the use of the image. *Cf. On Davis v. The Gap, Inc.*, 246 F.3d 152, 159 (2d Cir. 2001), *as amended* (May 15, 2001) (profits must bear "reasonable relationship to the act of alleged infringement").
3. *Baker v. Urban Outfitters, Inc.*, 254 F. Supp. 2d 346, 357 (S.D.N.Y. 2003).
4. *Capitol Records, Inc. v. MP3tunes, LLC*, 48 F. Supp. 3d 703, 726 (S.D.N.Y. 2014) (internal citations and quotations omitted).
5. *Fitzgerald Pub. Co. v. Baylor Pub. Co.*, 807 F.2d 1110, 1116 (2d Cir. 1986) (the Copyright Act affords "wide discretion . . . in setting the amount of statutory damages").
6. 17 U.S.C. § 504(c)(1).
7. 17 U.S.C. § 504(c)(2). To prove "willfulness," a plaintiff must show "(1) that the defendant was actually aware of the infringing activity, or (2) that the defendant's actions were the result of 'reckless disregard' for, or 'willful blindness' to, the copyright holder's rights." *Broad. Music, Inc. v. Prana Hospitality, Inc.*, 158 F. Supp. 3d 184, 197 (S.D.N.Y. 2016) (quoting *Island Software and Computer Serv., Inc. v. Microsoft Corp.*, 413 F.3d 257, 262-63 (2d Cir. 2005)).
8. *Boisson v. Banian Ltd.*, 280 F. Supp. 2d 10, 15 (E.D.N.Y. 2003) (citing 17 U.S.C. § 504(c)).
9. *Erickson Productions, Inc. v. Only Websites, Inc.*, No. 12 Civ. 1693 (PGG) (KNF), 2016 WL 1337277 at *2 (S.D.N.Y. Mar. 31, 2016) (awarding "three times the licensing fee the plaintiffs charge typically to those who wish to obtain online usage for an Erickson copyrighted photograph"); *Broad. Music, Inc. v. Ken V, Inc.*, 159 F. Supp. 3d 981, 989-90 (E.D. Mo. 2016) (noting the "general trend of awarding damages of approximately three times the licensing fees" for purposes of statutory damages); *BWP Media USA Inc. v. Uropa Media, Inc.*, No. 13 Civ. 7871 (JSR) (JCF), 2014 WL 2011775, at *2 (S.D.N.Y. May 16, 2014) (awarding statutory damages in amount of three times plaintiff's unpaid licensing fee); *Nat'l Photo Grp., LLC v. Bigstar Entm't, Inc.*, No. 13 Civ. 5467 (VSB) (JLC), 2014 WL 1396543, at *4 (S.D.N.Y. Apr. 11, 2014) *report and recommendation adopted*, No. 13 Civ. 5467 (VSB) (JLC), 2014 WL 5051275 (S.D.N.Y. Oct. 8, 2014) (recommending award of $9,000, three times plaintiff's licensing fee – citing that an award of statutory damages of three to five times plaintiff's licensing fee is commonly applied); *Realsongs v. 3A N. Park Ave. Rest Corp.*, 749 F. Supp. 2d 81 (E.D.N.Y. 2010) (recommending award of $15,000 in statutory damages, approximately three times the licensing fee for each of five infringed works); *Cynthia Hunt Prods. v. Evolution of Fitness Houston Inc.*, 2007 WL 2363148, at *7 (S.D. Tex. Aug. 16, 2007) (awarding statutory damages for three times the amount invoiced for use of copyrighted photographs).
10. *Erickson*, 2016 WL 1337277, at *3 (citing *Broad. Music, Inc. v. Pamdh Enterprises, Inc.*, No. 13 Civ. 2255 (KMW), 2014 WL 2781846, at *4 (S.D.N.Y. June 19, 2014)).
11. 2016 WL 1337277, at *2. Notably, defendant Only Website defaulted and failed to provide evidence of what it would have paid for the photograph.
12. 158 F. Supp. at 199.
13. *FameFlynet, Inc. v. Shoshanna Collection, LLC*, No. 16 Civ. 7645, 2017 WL 4402568 (S.D.N.Y. Oct. 11, 2017).
14. *Id.* at *1.
15. *Id.* at *5 (emphasis added) (citing *Broad. Music, Inc. v. Prana Hospitality, Inc.*, 158 F. Supp. 3d at 198).
16. *Id.*
17. 17 U.S.C. § 505.
18. *Kanongataa v. Am. Broadcasting Companies, Inc.*, No. 16 Civ. 7382 (LAK), 2017 WL 2684067, at *2 (S.D.N.Y. June 21, 2017) (awarding attorneys' fees to *defendants* where "no reasonable lawyer with any familiarity with the law of copyright could have thought that the fleeting and minimal uses . . . was anything but fair").
19. 17 U.S.C. § 504(c)(1) ("For the purposes of this subsection, all the parts of a compilation or derivative work constitute one work.").
20. Dkt. No. 1, Complaint, p. 5, ¶ 49, *Barcroft*, 2017 WL 5032993 (S.D.N.Y. Nov. 2, 2017).
21. *Barcroft*, 2017 WL 5032993, at *9.
22. Dkt. No. 27, Order, *Kanongataa v. Coed Media Group, LLC*, No. 16 Civ. 7472 (LAK) (S.D.N.Y. Feb. 15, 2017) (granting motion to dismiss because use of a single-frame screen shot of a 45-minute video, in the context of news reporting and social commentary, was de minimis).
23. *See Perfect 10, Inc. v. Amazon.com, Inc.*, 508 F.3d 1146 (9th Cir. 2007) (holding that a search engine's publication of low-resolution, thumbnail copies of copyrighted images was "highly transformative" because the thumbnails were "incorporat[ed] ... into a new work, namely, an electronic reference tool"); *Blanch v. Koons*, 467 F.3d 244, 250 (2d Cir. 2006) (original must be employed "in the creation of new information, new aesthetics, new insights and understandings").
24. 17 U.S.C. § 412.
25. *Barcroft*, 2017 WL 5032993, at *11.
26. *Id.* at *8-11 (emphasis added) (citing *Erickson*, 2016 WL 1337277, at *2-3; *Shoshanna*, 2017 WL 4402568, at *5. In determining the

statutory damages award, Judge Furman considered the *Bryant* factors, namely: "(1) the infringer's state of mind; (2) the expenses saved, and profits earned, by the infringer; (3) the revenue lost by the copyright holder; (4) the deterrent effect on the infringer and third parties; (5) the infringer's cooperation in providing evidence concerning the value of the infringing material; and (6) the conduct and attitude of the parties." *Id.* at *8 (quoting *Bryant v. Media Right Prods., Inc.*, 603 F.3d 135, 144 (2d Cir. 2010)).

27. *Id.* at *11, n. 5 (citing *Shoshanna*, 2017 WL 4402568, at *5).

28. *Id.* at *9 (citing *Boisson*, 280 F. Supp. 2d at 17-19; 4 Nimmer on Copyright § 14.01[C][1] (2017) ("[A] finding of liability is not a lottery ticket. In all instances, the relief should match the proof.")).

29. Plaintiffs erroneously demanded this amount in U.S. dollars, even though plaintiffs' invoices indicated that the licenses were paid in British pounds. *Id.* at *12.

30. *Id.*

31. *Id.* at *10 (noting that such considerations reflect on the "infringer's state of mind" and the "conduct and attitude of the parties") (quoting *Bryant*, 603 F.3d at 144).

32. *Id.* at *12.

33. Dkt. No. 37, Proposed Findings of Fact and Conclusions of Law, at 32, ¶ 256, *Barcroft*, 2017 WL 5032993.

34. *Fogerty v. Fantasy, Inc.*, 510 U.S. 517, 535 n.19 (1994).

35. 136 S. Ct. 1979, 1985 (2016) (quoting *Fogerty*, 510 U.S. at 527).

36. Dkt. No. 60, Memorandum of Law in Support of Motion for Attorney's Fees, p. 10, *Barcroft*, 2017 WL 5032993.

37. *Fogerty*, 510 U.S. at 535.

38. Dkt. No. 60, Memorandum of Law in Support of Motion for Attorney's Fees, at 11, *Barcroft*, 2017 WL 5032993.

39. *Barcroft Media, Ltd. v. Coed Media Grp., LLC*, No. 16 Civ. 7634 (JMF), 2018 WL 357298, at *1 (S.D.N.Y. Jan. 10, 2018) ("*Barcroft II*").

40. *Barcroft II*, 2018 WL 357298, at *2.

41. *Id.* The court also noted Coed Media's recent success in asserting a fair use defense in *Kanongataa*. *See supra* note 22. *See also Overseas Direct Imp. Co. v. Family Dollar Stores Inc.*, No. 10 Civ. 4919 (JGK), 2013 WL 5988937, at *2 (S.D.N.Y. Nov. 12, 2013) ("[L]ack of success on the merits, without more, does not establish that the non-prevailing party's position was objectively unreasonable.").

42. *Barcroft II*, 2018 WL 357298 at *2.

43. *Id.*

44. *Id.* at *3. Notably, in the *Shoshanna* decision on attorney's fees, which was issued less than a month after the *Barcroft* decision on attorney's fees and is being appealed, plaintiffs (with coincidentally the same counsel as in *Barcroft*), were awarded attorney's fees. *FameFlyNet, Inc. v. Shoshanna Collection, LLC*, No. 16 CIV. 7645 (RWS), 2018 WL 671267 (S.D.N.Y. Feb. 1, 2018). Presumably, plaintiffs' counsel's conduct in both cases was similar, so it is unclear what moved the needle in *Barcroft*. One possibility, is that the damage award in *Shoshanna* was so low, $750, that it was deemed too modest to compensate plaintiff and deter infringement. The District Court for the Eastern District of New York has suggested that $7,500 for the use of two images (or, $3,750 per image) is a sufficient statutory award to further the purposes of the Copyright Act. *BWP Media USA, Inc. v. Mishka NYC LLC*, No. 13 Civ. 4435 (ENV) (LB), 2016 WL 8309676, at *3 (E.D.N.Y. Dec. 28, 2016). The holding in *Barcroft* suggests that anywhere from $750 to $6,000 per image, depending on the specifics of each use, is sufficient. This leaves defendants in a precarious position, hoping that plaintiffs are awarded an amount within the "sweet spot" that courts deem sufficient to compensate and deter.

45. *Barcroft II*, 2018 WL 357298 at *3.

46. *See*, *e.g.*, *Mishka*, 2016 WL 8309676, at *3 (declining to award attorney's fees in part because the defendant "cooperated in ceasing any potentially infringing conduct upon being served with the lawsuit by immediately removing the photographs from its blog," and defendant "made its position clear from the start that it was a small business and it made multiple attempts to settle this matter"), *report and recommendation adopted sub nom. BWP Media USA Inc. v. Death Adders Inc.*, No. 13 Civ. 4435 (ENV) (LB), 2017 WL 880855 (E.D.N.Y. Mar. 3, 2017).

47. 17 U.S.C. § 504(c)(2).

48. *See Shoshanna*, 2017 WL 4402568 (awarding damages of only $750 where court found defendants' infringement to be willful).

The Uncertain Landscape of Public Performance Rights in Pre-1972 Sound Recordings

By Jeremy Cain

I. Introduction

A series of recent cases and proposed federal legislation underscores the complexity of the copyright law as it applies to sound recordings, in particular whether state law confers upon copyright owners public performance rights in pre-1972 sound recordings even though federal law does not (yet) do so. Although music compositions have long been copyrightable, federal copyright protection for sound recordings did not go into effect until 1972. The Sound Recording Amendment of 1971 provided the first federal copyright protection for sound recordings, but that protection was limited to recordings created after February 15, 1972, and it did not include public performance rights.[1] At the time the Sound Recording Amendment of 1971 was passed, the record industry was willing to forgo public performance rights in sound recordings because radio airplay provided the significant benefit of promoting record sales, then the predominant source of revenue for the recording industry.[2]

Federal copyright law explicitly excluded public performance rights in sound recordings until 1995, when the Digital Performance Right in Sound Records Act (DPRA) was enacted. Even then, the DPRA only extended public performance rights to digital audio transmissions and not to radio or other traditional media.

However, the analysis does not end with federal law. The U.S. Supreme Court has held that states can regulate—by statute or common law—areas of copyright not covered by federal statute, including recordings of musical performances fixed prior to 1972.[3] Indeed, several states have recognized certain copyright and quasi-copyright rights in sound recordings. And the 1976 Copyright Act provides expressly that state law may govern pre-1972 sound recordings until 2067, at which time federal preemption will begin to apply, and pre-1972 sound recordings will enter the public domain.[4]

With Congress having permitted state law to govern copyright protection (or not) of pre-1972 sound recordings, courts are wrestling with determining the extent to which the copyright common law of certain states protects pre-1972 sound recordings and, if it does, whether that law recognizes exclusive public performance rights in such recordings. Until these issues are resolved, the law imposes peculiar results for legacy artists. For example, under current federal law governing sound recordings, the Beach Boys' "Kokomo" has performance rights, but "Pet Sounds" does not; there are no performance rights for any of the Beatles' original recordings, but Paul McCartney's "Band on the Run" is protected; the Rolling Stones' discography through "Sticky Fingers" has no performance rights, but "Exile on Main St." and later recordings do; and Marvin Gaye's recordings through "What's Going On" likewise lack performance rights.

II. Do Performance Rights Exist in Pre-1972 Sound Recordings?

Beginning in 2013, Flo & Eddie, members of the 1960s band the Turtles, filed a series of lawsuits against digital broadcasters, including Sirius XM Radio and Pandora Media, in federal courts in New York, California, and Florida alleging copyright infringement for the unauthorized public performance of pre-1972 sound recordings. Other rightsholders filed similar lawsuits. Because these lawsuits were premised on the state copyright protection of different states, it is unsurprising that these cases have had different outcomes.

A. New York

In August 2013, Flo & Eddie filed a lawsuit in the Southern District of New York, alleging that Sirius XM committed common law copyright infringement and engaged in unfair competition by publicly performing sound recordings owned by Flo & Eddie and by reproducing those recordings to facilitate its performances.[5]

The district court denied Sirius XM's motion for summary judgment, holding, among other things, that holders of New York common-law copyrights in pre-1972 sound recordings have an exclusive right to publicly perform those works; that Sirius XM's use of Flo & Eddie's sound recordings was not a fair use; and that Flo & Eddie satisfied the competitive injury requirement for an unfair competition claim based on a theory of misappropriation.[6] The district court also indicated that it intended to grant the plaintiff summary judgment on liability.[7] However, the court certified an interlocutory appeal to the Second Circuit.

The Second Circuit found that the appeal implicated state law issues of first impression and certified the following question to the New York Court of Appeals: "Is there a right of public performance for creators of sound recordings under New York law and, if so, what is the nature and scope of that right?"[8] The New York Court of Appeals answered the certified question in the negative, finding that New York common-law copyright does not recognize a public performance right in sound recordings.[9]

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The Court of Appeals, in an opinion by Judge Leslie E. Stein, traced over 100 years of history of federal copyright protection for sound recordings and New York common-law copyright and noted that, if New York common law "includes a right to control public performances of pre-1972 copyrighted sound recordings . . . the copyright holders have gone decades without acting to enforce that right."[10]

The Court discussed several prior cases, including the Second Circuit's 1950 decision in *Metro. Opera Ass'n v. Wagner-Nichols Recorder Corp.*, in which the court held that an artist or creator of a performance can, under New York common law, prevent the unauthorized exploitation of a performance by making a surreptitious recording of it, reproducing that recording, and selling copies of it.[11] However, the Court of Appeals concluded that the *Metropolitan Opera* decision was "essentially limited to an anti-piracy determination."

The Court also examined its previous decision in *Capitol Records, Inc. v Naxos of America, Inc.*[12], in which it held that New York common-law copyright applied to pre-1972 sound recordings. The Court noted that *Naxos* had defined the elements of a cause of action alleging New York common-law copyright infringement to include "(1) the existence of a valid copyright; and (2) unauthorized *reproduction* of the work protected by copyright" but "did not . . . discuss public performance at all."[13] The court further explained:

> *Naxos* does not resolve the question presently before us. That, too, was an anti-piracy case; it reiterated that New York's common-law copyright protection would prevent the unauthorized copying and sale of records. However, *Naxos* did not address the right of public performance. Thus, our conclusion in *Naxos* that pre-1972 sound recordings are subject to some New York common-law copyright protection does not define the scope of that protection or stand for the proposition that there is a single aspect to that protection, as opposed to separate and distinct aspects of reproduction and performance.[14]

Although not dispositive in its analysis of the scope of common-law copyright protection, the Court also considered "societal expectations," congressional testimony of recording industry representatives, and statements by multiple Registers of Copyrights.[15] The Court reasoned that it would be illogical to conclude that a common-law public performance right existed for decades without the courts recognizing such a right and without any artist or record company previously attempting to enforce that right.[16] While the Court acknowledged that parties do not lose their rights merely by failing to enforce them, the fact that holders of rights to sound recordings "took no action whatsoever to assert common-law protection" for over forty years supported the conclusion that the copyright holders themselves did not believe such common-law right existed.[17]

Ultimately, the Court concluded that New York's common-law copyright "has never recognized a right of public performance for pre-1972 sound recordings," and it declined to create such a right given the far-reaching consequences of such a ruling.[18]

In a concurring opinion, Judge Fahey suggested that while New York does not recognize a common-law public performance right for sound recordings, the on-demand transmission of a sound recording specifically selected by a listener does not constitute a "public performance."[19] In Judge Fahey's view—which does not appear to have been adopted by other courts—the renting or leasing of a recording through an on-demand service substitutes for the purchase of that recording and constitutions publication of the recording.[20]

Following the Court of Appeals' ruling in December 2016, the Second Circuit remanded the case to the district court with instructions to dismiss the case in accordance with the decision by the New York Court of Appeals.[21]

B. California

Flo & Eddie brought a similar class action suit against Sirius XM in the Central District of California in 2013, likewise alleging that Sirius XM had infringed upon their exclusive public performance and reproduction rights in the Turtles' pre-1972 sound recordings. In September 2014, the court granted Flo & Eddie's motion for summary judgment on all causes of action premised on Sirius XM's public performance of Flo & Eddie's recordings, but it denied summary judgment on Flo & Eddie's claims alleging unlawful reproduction of the recordings.

Unlike the New York case, which was based on common-law copyright, the California case hinged on the interpretation of California Civil Code § 980(a)(2). The statute, in relevant part, states that "[t]he author of an original work of authorship consisting of a sound recording initially fixed prior to February 15, 1972, has an exclusive ownership therein until February 15, 2047." The only statutory exception to the author's exclusive ownership permits the "independent fixation of other sounds" to recreate the original sound recording, i.e., the recording of a cover song.[22]

Looking to other property ownership statutes in the California Civil Code for guidance, the court defined "exclusive ownership" as the right "to possess and use a thing to the exclusion of others." The court construed the "exclusive ownership" provision with the exception for cover songs to mean—surprisingly broadly—that the ownership of a sound recording in California includes "all rights that can attach to intellectual property, save the singular, expressly-stated exception" for making covers of a recording. Accordingly, the court held that Flo & Eddie had the right to exclude Sirius XM and others from "using" the sound recordings they owned, including for any public performances of such recordings.

C. California (Reprise)

Flo & Eddie also brought a similar action against Pandora Media in the Central District of California. In response, Pandora filed a motion to strike under California's statute against "strategic litigation against public participation," or SLAPP, arguing that section 980(a)(2) does not apply to the Turtles' recordings because they entered the public domain upon publication. The district court denied the motion, but in March 2017, the Ninth Circuit—recognizing the absence of controlling precedent—certified questions to the California Supreme Court regarding (i) whether section 980(a)(2) affords an exclusive public performance right to owners of pre-1972 sound recordings that were sold to the public before 1982, and (ii) if not, whether California common law otherwise grants copyright owners of pre-1972 sound recordings an exclusive public performance right.[23] In May 2017, the California Supreme Court agreed to hear the case.

The California Supreme Court has not yet heard the case or issued its opinion, so it remains unclear whether California's high court will find the state's law to be in harmony with that of other states (New York, Florida) whose laws have been held not to provide public performance rights in pre-1972 sound recordings.[24]

Whatever the California Supreme Court decides, the courts of the vast majority of states have not considered whether their laws recognize public performance rights in pre-1972 sound recordings. The most effective path forward on this issue instead of piecemeal litigation would be uniform treatment of pre-1972 sound recording under the Copyright Act. Absent federal legislation, it will be difficult for broadcasters with nationwide reach to ascertain with any certainty the litigation risks for publicly performing pre-1972 sound recordings.

III. Are Remastered Recordings Still Pre-1972 Sound Recordings?

One recent case raised the question of what, exactly, is a pre-1972 sound recording—specifically, whether a remastered recording is a new work protectable under the Copyright Act. In *ABS Entertainment, Inc. v. CBS*, the plaintiffs, owners of sound recordings by artists including Al Green, the Everly Brothers, and the Chi-Lites, among others, filed a putative class action against CBS Corporation and CBS Radio Inc. alleging infringement of California state law copyrights by CBS's public performance, either through terrestrial radio broadcasts or digital internet streams, of the plaintiffs' pre-1972 sound recordings.[25]

The plaintiffs' pre-1972 sound recordings, originally recorded in an analog format, had been digitally mastered, and sometimes remastered, in a way that altered characteristics of the recordings, including their timbre, spatial imagery, sound balance, and loudness range.[26] The plaintiffs also had entered into license agreements that allowed for the reproduction, remastering, and new distribution of the plaintiffs' works, including as part of compilation albums with other sound recordings.[27]

CBS moved for summary judgment, contending that it had only publicly performed post-1972 remastered versions of the plaintiffs' works and that those remastered recordings were derivative works governed by federal copyright law.[28] Because there was no record evidence that CBS had publicly performed any of the original pre-1972 recordings, CBS argued, the case was not controlled by *Flo & Eddie v. Sirius XM*.

CBS submitted testimony by multiple experts, including one of the sound engineers who had personally remastered many of the recordings at issue. CBS's experts testified that "the remastering process involves subjectivity, originality, and ultimately produces works of art" and that, in this case, the remastering process "made significant and noticeable alterations and modifications to the acoustic properties of the recordings."[29]

The plaintiffs argued that "to the extent that CBS publicly performed remastered copies of their pre-1972 sound recordings, the remastered copies were simply digital conversions optimized for the digital formats using only mechanical processing."[30] The court excluded the testimony of one of Plaintiffs' experts, however, ruling that conclusions based on unscientific "critical listening" were unreliable and irrelevant.[31] The court also noted that the plaintiffs admitted in their depositions that a sound engineer's choices made during the remastering process are creative and subjective and that the mixing engineer has "a lot of latitude at that point in the production process."[32]

The court concluded that the plaintiffs' pre-1972 sound recordings had undergone sufficient changes during the remastering process to qualify for federal copyright protection as derivative works. [33] The differences in the recordings, the court found, were not merely "mechanical changes or processes," nor were they "trivial."[34] Instead, they reflected "multiple kinds of creative authorship, such as adjustments of equalization, sound editing, and channel assignment," and the CBS version of one recording "had additional reverberation, was played in a different musical key and at a faster tempo, and differed in the musical performance."[35]

The court rejected the plaintiffs' argument that "any changes during the remastering process are not independent and original expression entitled to protection" because "removing Plaintiffs' original sound recording from the remastered copy would leave nothing to perceive."[36]

The court explained that if this were correct, *no* remixed derivative sound recordings would be entitled to copyright protection.

Having found that CBS's remastered recordings were derivative works that satisfied the low bar for originality under the Copyright Act and that the plaintiffs had failed to demonstrate a genuine issue of material fact as to the originality of the remastered recordings, the court granted summary judgment to CBS.[37] After judgment was entered, ABS appealed. The Ninth Circuit heard oral argument in November 2017 but has not yet issued a ruling.

IV. Proposed Legislation

Congress has taken steps to address the pre-1972 issue. In July 2017, Jerrold Nadler (D-NY) and Darrell Issa (R-CA), Ranking Member and Chairman, respectively, of the House Judiciary Subcommittee for Courts, Intellectual Property and the Internet, introduced the CLASSICS (Compensating Legacy Artists for Their Songs, Service, & Important Contributions to Society) Act, H.R. 3001, to address the uncertainty surrounding the scope of copyright protection for pre-1972 sound recordings. In February 2018, senators from both parties introduced the counterpart CLASSICS Act in the Senate.

Both versions of the bill would require digital music services to pay for digital audio transmissions of pre-1972 sound recordings in the same manner they currently pay to use sound recordings created after 1972. SoundExchange would distribute royalties for digital audio transmissions of pre-1972 sound recordings in the same manner it collects royalties for post-1972 sound recordings. The law would not apply to traditional radio broadcasts. The Act would also allow digital music services to settle disputes with owners of copyrights in pre-1972 sound recordings by paying royalties at the current statutory rate for all public performances of pre-1972 sound recordings from the three years prior to the enactment of the bill. As long as transmitting parties comply with that provision, the bill would preempt state and common law copyright claims for digital audio transmissions and reproductions of pre-1972 sound recordings made before the effective date of the law. However, there are a few potential issues worth noting.

First, digital music services might find limited value in paying royalties for all of their performances of pre-1972 sound recordings from the past three years to settle or preempt state law copyright claims. The California Supreme Court has not yet ruled on whether California state law recognizes public performance rights in sound recordings, and all other states that have considered the issue have ruled that their state's laws do *not* recognize such rights. In addition, this provision would not preempt claims based on the public performance of pre-1972 sound recordings via terrestrial radio and thus would not apply to the dispute between ABS Entertainment and CBS over CBS's performance of ABS's sound recordings through terrestrial radio broadcasts.

Second, whereas the Sound Recording Amendment of 1971 did not apply retroactively to sound recordings already in existence at the time of enactment, the CLASSICS Act would provide a federal public performance right for recordings otherwise governed by state law. The Act provides, in relevant part:

> Anyone who, prior to February 15, 2067, performs publicly by means of digital audio transmission a sound recording fixed before February 15, 1972, without the consent of the rights owner, shall be subject to the remedies provided in sections 502 through 505 to the same extent as an infringer of copyright.[38]

Even applying the presumption against retroactive enforcement in interpreting the statute,[39] the language of the proposed bill is unclear as to whether rightsholders in pre-1972 recordings would be required to register their works before seeking remedies for copyright infringement codified in sections 502 through 505 of the Copyright Act.

Despite these potential issues, the CLASSICS Act has garnered bipartisan support. While some digital music services have opposed the bill, Pandora has supported it.[40] Although the economic impact of the bill is still being assessed, SoundExchange estimates that royalties for pre-1972 sound recordings could generate at least $60 million in annual payments to artists and record labels.[41] However, there are indications that several digital music services—which often are unable to determine which versions of certain recordings constitute pre-1972 works—might already be paying to publicly perform some pre-1972 works that are not yet protected under federal law.

V. Conclusion

It remains to be seen, as this goes to press, whether the CLASSICS Act will become law or if it will be consolidated with other proposed copyright reform bills, such as the Music Modernization Act, a proposal to reform the collection of mechanical royalties, or the Allocation for Music Producers Act, which would amend federal law to increase royalty payments to producers and sound engineers. However, with the California Supreme Court slated to rule in the *Flo & Eddie v. Sirius XM*, the Ninth Circuit expected to rule in *ABS Entertainment v. CBS*, and the CLASSICS Act pending in both chambers of Congress, important further developments in the law governing the copyrights in pre-1972 sound recordings are imminent.

Endnotes

1. *See Pub.* L. 92–140, 85 U.S. Stat. 391 (1971).
2. *See* Steve Gordon & Anjana Puri, *The Current State of Pre-1972 Sound Recordings: Recent Federal Court Decisions in California and New York Against Sirius XM Have Broader Implications Than Just Whether Satellite and Internet Radio Stations Must Pay for Pre-1972 Sound Recordings*, 4 NYU J. Intell. Prop. & Ent. L. 336, 340-42 (2015).
3. *See Goldstein v. California*, 412 U.S. 546, 570–71 (1973) (upholding California anti-piracy statute applied to pre–1972 sound recordings).
4. *See* 17 U.S.C. § 301(c).
5. *Flo & Eddie, Inc. v. Sirius XM Radio, Inc.*, 62 F. Supp. 3d 325, 330 (S.D.N.Y. 2014), *rev'd*, 849 F.3d 14 (2d Cir. 2017).
6. *Id.* at 344-49.
7. *See id.* at 353.
8. *Flo & Eddie, Inc. v. Sirius XM Radio, Inc.*, 28 N.Y.3d 583, 589 (2016).
9. *Id.*
10. *Id.* at 594.
11. 199 Misc. 786 (Sup. Ct. N.Y. 1950), *aff'd*, 279 A.D. 632 (1st Dep't 1951).
12. 4 N.Y.3d 540, 563 (2005).
13. *Flo & Eddie*, 28 N.Y.3d at 602 (emphasis in original).
14. *Id.*
15. *Id.* at 603.
16. *Id.* at 605.
17. *Id.*
18. *Id.* at 605-06.
19. *Id.* at 612.
20. *See id.*
21. The Second Circuit dismissed Flo & Eddie's claims that Sirius XM made unauthorized copies of the recordings, finding that the New York Court of Appeals' answer to the certified question was determinative of the other claims, including whether the alleged copying was fair use.
22. *Flo & Eddie Inc. v. Sirius XM Radio Inc.*, No. CV 13-5693 PSG (RZX), 2014 WL 4725382, at *4 (C.D. Cal. Sept. 22, 2014).
23. *Flo & Eddie, Inc. v. Pandora Media, Inc.*, 851 F.3d 950, 951 (9th Cir. 2017).
24. *See Flo & Eddie, Inc. v. Sirius XM Radio, Inc.*, 28 N.Y.3d 583 (2016); *Flo & Eddie, Inc. v. Sirius XM Radio, Inc.*, 229 So. 3d 305, 315-16 (Fla. 2017) (Supreme Court of Florida concluding that Florida common law does not recognize an exclusive right of public performance in pre-1972 sound recordings).
25. *ABS Entm't, Inc. v. CBS Corp.*, No. CV 15-6257-PA (AGRX), 2016 WL 4259846 (C.D. Cal. May 30, 2016).
26. *Id.* at *4.
27. *Id.* at *2.
28. *Id.* at *3.
29. *Id.* at *5-6.
30. *Id.* at *7.
31. *Id.* at *7-8.
32. *Id.*
33. *Id.* at *9.
34. *Id.*
35. *Id.*
36. *Id.* at *10.
37. *Id.* at *14.
38. CLASSICS Act of 2018, 115 S. 2393, 115th Cong. § 1401(a) (2018).
39. *See Landgraf v. USI Film Prod.*, 511 U.S. 244, 289 (1994).
40. https://www.soundexchange.com/news/joint-statement-pandora-riaa-soundexchange-join-together-applaud-introduction-pre-72-bill/.
41. https://www.soundexchange.com/advocacy/pre-1972-copyright/.

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Welcome New Intellectual Property Section Members

The following members joined the Section between Jan. 6, 2018 and April 2, 2018:

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Caroline Bercier
Richard E. Carmen
Rose E. D'Orazio
Milana Dabran
David A. Einhorn
Penelope Fisher-Birch
John L. Habib
Roy Ahron Hakimian
Thomas Patrick Lane
Patrick Marc
Ameet A. Modi
Lee V. Pham
Chad I. Rosenthal
Mitchell C. Shelowitz
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Chad Woodford

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Tom R. K. De Kesel
Theone T. Luong
Dana F. Nelson
Michael Pantalony
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Eric Saparli
Holly A. Hirsch

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Katherine B. Felice

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Joshua A. Goldberg
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Out of State
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Sabrina Shyn
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Bhaskar Tirumala-Kumara
Emmanuel Luc Verraes
Abigail Viernes
Wenyuan Wu
Megan Yi

Submission of Articles

Anyone wishing to submit an article, announcement, practice tip, etc., for publication in an upcoming issue of *Bright Ideas* is encouraged to do so. Articles should be works of original authorship on any topic relating to intellectual property. Submissions may be of any length.

Submissions should preferably be sent by e-mail to Jonathan Bloom, Editor-in-Chief, at the address indicated on this page. Submissions for the Fall 2018 issue must be received by July 13, 2018.

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