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Entertainment, Arts and Sports Law Journal

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

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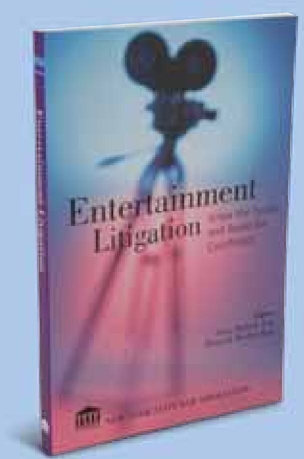
Entertainment Litigation



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

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

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Contents

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Happy Anniversary, EASL!

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

Included in this Special Edition of the *Journal* are articles from many of our Section Committees, wherein they discuss transitions in their particular fields of focus over the past 25 years and provide some clues as to where the field and the law may be headed. Collectively, they provide a unique overview of entertainment, arts and sports law which you are sure to enjoy. Special thanks goes to our *Journal* Editor, Elissa Hecker, for her passion and expertise in making every edition of the *EASL Journal* extraordinary.

Our Anniversary Celebration is the product of a year's planning by our dedicated Anniversary Committee co-chaired by Jason Aylesworth, Marc Jacobson, Pamela Jones and Megan Maxwell. The Committee chose Monday, May 6, 2013 for the Gala Event. Its vision of a day of engaging CLE and an evening of lively entertainment created the perfect balance for our members. The Committee's goal was to offer something for every member—a program introducing Art Law for the novice, a Sports Law roundtable during lunch, focused CLE in the afternoon, and the levity of entertainer Jackie Hoffman in the evening over dinner at *54 Below* (known as Broadway's Night Club). To accommodate members traveling from various parts of the state, the Anniversary Committee secured favorable rates at The Warwick Hotel and organized dinner and entertainment events for the Sunday before. We are grateful to our Anniversary Committee for its extraordinary efforts and care in creating a most memorable experience and tribute to EASL on the occasion of its 25th Anniversary. Thank you to all Anniversary Committee members: Anne Atkinson, Jayson Aylesworth, Jason Baruch, Judith Bresler, Elissa Hecker, Marc Jacobson, Pamela Jones, Ezgi Kaya, Diane Krausz, Megan Maxwell, Steve Rodner, Barry Skidelsky, Jessica Thaler, Irina Tarsis, and Szyuan Zhu.

In 1984, EASL began as a Special Committee on Entertainment Law with about 20 members organized by Marc Jacobson. In 1988, it acquired Section status with Marc as Founding Chair. In its early years, EASL produced a variety of programs for its members with a selection of specialized courses and, in alternating years, a comprehensive, day-long seminar on entertainment law for the general practitioner. To this day, I still have the various program materials and can vividly recall many of the speakers, most of whom are legends in their fields, and the pearls of wisdom they generously imparted. In addition to the programs, EASL established its *Journal*, which would be published three times a year. Containing both scholarly and informal articles, the *Journal* was (and continues to be) distributed to Section members, and is now found in law schools and nationally and internationally by subscription.

Over time, EASL has consistently taken on new challenges and now, in addition to the mainstays of CLE programs and illuminating *Journal* articles, EASL offers its members a myriad of avenues to participate in shaping the evolution of the practice of law in the entertainment, arts and sports fields, as well as opportunities for public service. Among them are:

EASL Committees—These are the engines of our exceptional programming. We are fortunate to have great leaders in our various committees who continue to innovate with programs, such as the two-day *Legal Aspects of Producing Live Theater* (April 2013—Jason Baruch and Diane Krausz, Co-Chairs) and dare to bring the controversial to fore, e.g., *Is Manga a Crime? Non-photographic Images, Child Pornography and Freedom of Expression* (May 2012—combined committee Co-Chairs Jason Aylesworth, Megan Maxwell, Judith Prowda, Andrew Seiden); or be wildly adventurous with *The Business Entertainment Law Seminar at the CMJ Music Marathon* (October 2012—Christine Pepe and Keenan Popwell, Co-Chairs), or be simply sublime by organizing a tour of the Whitney Museum for its Biennial (May 2012—combined Committee Co-Chairs Ezgi Kaya, Kibum Kim and Judith Prowda). EASL Committees are open to all members, and we thank all of our committee members who continue to surprise and delight us with new adventures year after year.

EASL's Online Blog—Since its inception in 2009, I have been in awe of EASL's online Blog. Edited by Elissa Hecker, the Blog is a font of current information about the status of the law in the areas of entertainment, arts and sports. From *Hemingway's Cats* to the recent NHL lockout, you never know what you will next encounter in the EASL Blog, but you can be sure it will be timely, engaging, and informative. Most importantly, it is the constant flow of our members' contributions that keep the dialogue going.

EASL's Pro Bono Service—Under the leadership of EASL's Pro Bono Steering Committee (Elissa Hecker, Carol J. Steinberg, Kathy Kim, and Irina Tarsis), our members volunteer their time to do the public good by providing workshops, seminars, and legal advice to deserving artists *pro bono*. Any member may volunteer, and those that do return time and again to perform this meaningful service.

EASL's Mentor Program—Organized by EASL's Diversity Committee (Anne Atkinson and Cheryl Davis, Co-Chairs) this program aims to bring together seasoned practitioners and young attorneys to learn from each other. Sometimes we learn best by teaching, and EASL's mentorship program provides that opportunity to members through this rewarding experience. To be a mentor, you only need to offer a minimum of one hour per month of your time for a commitment of six months, and have at least three years of practical experience. For more information, please visit www.nysba.org/easlmentor.

EASL's Listserve—EASL's Listserve is an online discussion forum for members only. Here, members have the opportunity to share ideas, discuss topical issues, and learn from each other, without leaving their office chairs.

Back in 1993, when I first joined NYSBA, I thoroughly enjoyed EASL's general practitioner programs. As I continued my career, I looked forward to EASL's focused programs and *Journal* publications, and its expanded offerings as the years unfolded. Today, I value EASL as an open source for lively debate, scholarly instruction, challenging expansion, diversity in thought and person, and, perhaps most important, for the welcoming community of professionals that the Section continues to be.

So on this auspicious occasion of EASL's 25th Anniversary, I offer my sincere thanks and my applause to you, our members, for your time and energy in being active in our Section and for your support of our programs and events each year. You continue to make our community vibrant and meaningful, and I am confident it will continue to be so for many years to come.

Rosemarie Tully

EASL Executive Committee

EASL Section Current Section Chair and Former Section Chairs who were present at the Annual Meeting

Rosemarie Tully

Judith Prowda

Timothy DeBaets

Judith Bresler

Elissa Hecker

Alan Barson

Editor's Note

Happy 25th Anniversary! As Marc Jacobson, Founding Father of the EASL Section, recently wrote, "EASL has become an institution. I look forward to #30, 40 and beyond!"

I couldn't have said it better myself.

This may be one of the largest *Journals* ever (certainly in my 13 years as Editor), and that is because of the comprehensive breadth of articles chronicling relevant history, caselaw, legislation and other pertinent EASL-related information from over the past 25 years. Several of the articles forecast what may be coming over the legal horizon as well.

I am pleased to include the two Phil Cowan / BMI Scholarship award winning submissions, "A Red-Letter Year: Single Color Trademark Protection in the Fashion Industry," by Danielle Ella Gorman, and "The Theft of the Herzog Art Collection: The Holocaust in Hungary and the Road to Restitution," by M. Elisabeth Conroy. As you will read, the awards were well deserved.

For those of you who were unable to attend the Annual Meeting, the transcript is included herein, in addition to photographs of the panels, reception, Executive Committee, EASL's Chair, and former Chairs. We are looking forward to seeing you on May 6th at our official Anniversary celebration in New York City.

I am also excited to report that EASL's most recent book, *In the Arena*, will be available soon.

Chapter topics in this Sports Law Handbook, which was edited by David Krell and me, include:

- Intellectual property and licensing
- Agency
- Collective bargaining
- Advertising and sponsorship
- Doping
- Concussions
- Title IX
- Rights of publicity, and privacy of athletes
- EU sport law
- Sweepstakes and promotions
- NCAA
- Torts, sports and criminal law
- Mascots
- Dental medical safety

Grab your copy now!

Thanks as always to Lyn Curtis, Wendy Harbour, Dan McMahon and Joan Fucillo in Albany. They are integral components of every EASL publication. Thanks and appreciation go as well to Barbara Beauchamp, web guru, for her support with the EASL Blog.

I look forward to hearing from you, our fabulous EASL members. Happy Anniversary to us all!

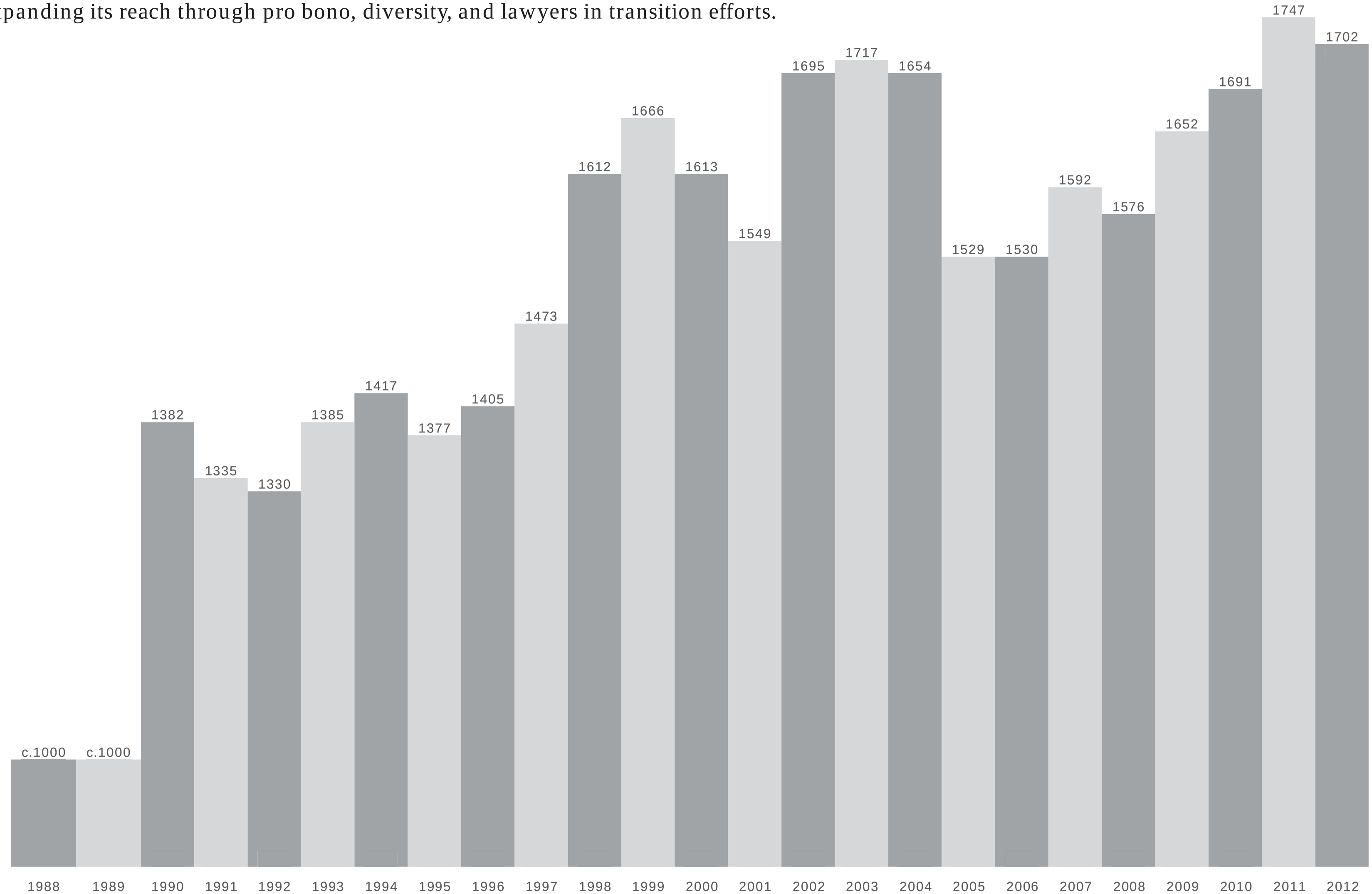
Elissa

The next *EASL Journal* deadline is Friday, April 26, 2013

Elissa D. Hecker practices in the fields of copyright, trademark and business law. Her clients encompass a large spectrum of the entertainment and corporate worlds. In addition to her private practice, Elissa is a Past Chair of the EASL Section. She is also Co-Chair and creator of EASL's Pro Bono Committee, Editor of the EASL Blog, Editor of *Entertainment Litigation, Counseling Content Providers in the Digital Age,* and *In the Arena*, is a frequent author, lecturer and panelist, a member of the Board of Editors for the NYSBA Bar *Journal*, Chair of the Board of Directors for Dance/NYC, a member of the Copyright Society of the U.S.A (CSUSA), a member of the Board of Editors for the *Journal* of the CSUSA and Editor of the CSUSA *Newsletter*. Elissa is a Super Lawyers Rising Star, the recipient of the CSUSA's first ever Excellent Service Award and recipient of the New York State Bar Association's 2005 Outstanding Young Lawyer Award. She can be reached at (914) 478-0457, via email at eheckeresq@eheckeresq.com or through her website at EHECKERESQ.com.

EASL Section Membership Since 1988

The Entertainment Arts and Sports Law Section (EASL) of the New York State Bar Association began as a Special Committee on Entertainment Law in 1984, under the leadership of Marc Jacobson, with approximately 20 members. After a few years of regular meetings of the members, and an expansion of the Special Committee's industry focus to include art and sports law, it became clear that there were a growing number of interested attorneys. In 1988, this Special Committee graduated to become a Section of about 1,000 members and it has continued to grow, with its membership expanding, ever since. Today, EASL consistently has around 1,700 members and continues in its efforts to grow and to address the needs to the many attorneys practicing in the areas of Publicity, Privacy and Media; Copyright and Trademark; Digital Media; Fashion; Fine Arts; Literary Works and Related Rights; Motion Pictures; Music and Recording Industry; Television and Radio; Theatre and Performing Arts; Sports; ADR; in the International arena; and Not-For Profit, in addition to continuously expanding its reach through pro bono, diversity, and lawyers in transition efforts.



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Representation of Section Membership from 1988 through the 12/31/12.

Letter from a Former Chairman

By Alan D. Barson

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

In 1988—

Bobby McFerrin's "Don't Worry Be Happy," Belinda Carlisle's "Heaven Is a Place on Earth" and Phil Collins' "Groovy Kind of Love" topped the charts around the world.

With recordable CDs a decade away, the recorded music industry was lining up against the technological breakthrough known as the Digital Audio Tape (DAT), which was the digital equivalent of the compact cassette. Only one jazz label, GRP Records, released digitally recorded front-line product in the DAT format, but the format, though still used in the film industry, never caught on as a consumer product.

The Writers Guild of America went on strike.

J.R. Ewing pushed Nicholas Pierce over the railing of his high-rise office building—so enraging Sue Ellen that she fired three shots at him on the season finale of *Dallas*.

"Sampling" cases were beginning to wend their way through the courts.

The Los Angeles Dodgers won the World Series 4-1 over the Oakland Athletics. Orel Hershiser was the series MVP.

Rick Rubin founded Def American Recordings.

Rain Man, starring Dustin Hoffman and Tom Cruise, won the Academy Award for Best Picture. Clint Eastwood won the Golden Globe for Best Director for *Bird*.

Madonna filed and then dropped assault charges against husband Sean Penn. They separated three days later and divorced the following year.

A petition for certiorari from the Washington, D.C. Circuit Court was filed in *Community for Creative Non-Violence v. Reid* to allow the Supreme Court to resolve the growing conflict among the circuits over the determination of when a work is "made for hire." The Supreme Court's decision was published a year later, in 490 U.S. 730 (1989).

For the first time, CDs outsold vinyl records.

Future Grammy Award-winning recording artist Lauryn Hill (The Fugees frontwoman) makes her television debut on *Showtime at the Apollo* as a contestant on Amateur Night, where a 13-year-old Hill sung "Who's Lovin' You" by Motown star Smokey Robinson, and gets booed by the audience.

Sonny Bono was inaugurated as the Mayor of Palm Springs and Alice Cooper announced his intention to run for Governor of Arizona.

Mike Tyson knocked out Michael Spinks in Atlantic City and defended his title as Undisputed Heavyweight Champion of the World.

Michael Jackson purchased a ranch in Santa Ynez, California and named it "Neverland."

The Washington Redskins won their second Super Bowl title 42-10 over the Denver Broncos in Super Bowl XXII.

Electronic Arts released *John Madden Football* for the Apple II, and Namco released *Splatterhouse*—the first electronic game with a parental advisory disclaimer.

Tom Hardy married Simone Ravelle on *General Hospital*—the first interracial wedding between two characters on American daytime television.

Sony Corporation acquired CBS Records, Inc. for $2 billion and later renamed it Sony Music Entertainment.

Steffi Graf became the third woman in history to win the Grand Slam in tennis.

The Berne Implementation Act of 1988 was passed and the Berne Convention was ratified by the Senate.

The California Raisins' version of "I Heard It Through the Grapevine" peaked at #84 on the Billboard Hot 100.

The American Experience (PBS) and *48 Hours* (CBS) made their television debuts, and, like the EASL Section, continue to run today. An FBI Ten Most Wanted fugitive was captured within four days as direct result of the *America's Most Wanted* broadcast. *Truth or Consequences* was cancelled after a 38-year run.

Andy Gibb of the Bee Gees died at age 30.

Ben Johnson won the 100 meter gold at the Summer Olympics in Seoul and was then disqualified for taking the anabolic steroid Stanozol.

Nine cast members of LA Law were nominated for Emmy Awards and Larry Drake (as developmentally challenged Benny Stulwitz) won.

The first post-Berne major artists' rights case, *Serra v. U.S General Services Commission*, 874 F. Supp. 1045 (2d Cir. 1988), was decided.

The top 10 grossing films were *Rain Man*, *Who Framed Roger Rabbit*, *Coming to America*, *Big*, *Twins*, *Crocodile Dundee II*, *Die Hard*, *The Naked Gun: From the Files of Police Squad!*, *Cocktail* and *Beetlejuice*.

A teen-age Celine Dion, then only known in the French-speaking world, won Eurovision with the song "Ne Partez Pas Sans Moi."

Rural Telephone Service Co. v. Feist Publications, Inc. was making its way through the lower courts. It was ultimately decided by the Supreme Court, 499 U.S. 340 (1991), which held that copyright rewards originality, not effort.

1,696 panels from an enormous national quilt commemorating those who died from AIDS was unfolded for its first display in New York City. By the time it was displayed on the Mall in Washington, D.C. for the second time in 1988, it had grown to some 8,000 panels. The quilt now encompasses over 44,000 panels, and if ever displayed in its entirety again would stretch all the way from the Capitol, past the Washington Monument, to the Lincoln Memorial. There is still no cure for AIDS.

The Grammys for Record of the Year were awarded to Paul Simon for *Graceland* and Album of the Year to Brian Eno, Daniel Lanois (producers) and U2 for *The Joshua Tree*. The Song of the Year was "Somewhere Out There," performed by Linda Ronstadt and James Ingram and written by Barry Mann, Cynthia Weil and James Horner, and the Best New Artist was Jody Watley. The non-classical Producer of the Year Grammy was awarded to Narada Michael Walden.

The National Film Preservation Act became law, becoming the first legislation to recognize the impact of colorization and similar "material alterations" of motion pictures.

Barenaked Ladies, Baha Men, Cypress Hill, Deftones, Jesus Jones, Nine Inch Nails, The Smashing Pumpkins, and the Traveling Wilburys formed and Morrissey began his solo career. The Bangles, the Cars, the Communards, Reagan Youth, The Damned, Electric Light Orchestra, Heaven 17, the Housemartins, Hüsker Dü, Lords of the New Church and (sniff) Supertramp disbanded.

George H. W. Bush and Dan Quayle won the Presidential election, defeating Michael Dukakis and his running mate Lloyd Bentsen.

The Record Rental Amendment of 1984 was extended for another eight years. It was originally passed in response to the proliferation of record rental stores whose primary function was to encourage customers to tape rented records instead of buying them.

Mötley Crüe issued a statement saying that the band's stunts in its "Live Wire" music video should not be tried at home after a young fan was badly burned doing just that.

The Satellite Home Viewers Act of 1988 was passed, adding § 119 to the Copyright Act and a compulsory license for satellite carriers to retransmit signals from broadcast network affiliates to rural viewers who could not receive network television signals.

George Michael thanked Tipper Gore, head of the Parents Music Resource Center, for helping the sales of his *Faith* album.

Several prominent New York entertainment lawyers convinced the New York State Bar Association of the need to formalize the Entertainment Law Committee as a section, and the Entertainment, Arts and Sports Law Section was born.

Happy 25th Anniversary EASL!

Alan Barson

Alan D. Barson was Chairman of the EASL Section from 2006 to 2008 and wrote this article for the *Journal* on the occasion of the Section's 20th Anniversary in 2008. He has updated it slightly for this edition. Grateful thanks to Bob Clarida, Judith Prowda, Judith Bresler and Wikipedia for providing source material for this article.

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January 2013

Dear Entertainment, Arts and Sports Law Section Members:

On behalf of the New York State Bar Association, I am pleased to congratulate the Entertainment, Arts and Sports Law Section and join you in celebrating 25 years of success. In the quarter-century since EASL's inception, the industries and communities you serve have experienced a rapidly accelerating rate of progress and change, and the legal, business and arts communities are indebted to EASL for all that you do to help keep our profession up-to-date. Who could have imagined in 1988 that EASL's 25th year would include programs on augmented reality and a Nintendo Wii Tournament? From your very serious work on issues such as copyright, financing and licensing to your fun and creative networking events, EASL has been a primary authority on important legal issues and policies facing the entertainment, arts and sports industries and a wonderful resource for attorneys practicing in those areas for 25 years.

In addition to your excellent substantive work, including cutting-edge CLE programs and publications, EASL also has been an extraordinary leader in enhancing our Association's diversity. I would like to take this opportunity to once again congratulate EASL on your designation as a first-place Diversity Champion during the first phase of the President's Section Diversity Challenge in 2011-2012. Your educational, networking and mentoring programs truly exemplified the types of efforts sections can undertake to improve the diversity of our Association and our profession. As we move into the second phase of the Challenge, with the theme "Reaching for the Next Level," I am confident that your section will continue to set an example within the Association and that we will see even more outstanding results.

Again, congratulations on your many achievements and the best of luck as you enter your second quarter-century!

Sincerely,

Seymour W. James, Jr.

KIRSTEN E. GILLIBRAND
NEW YORK

UNITED STATES SENATOR

December 19, 2012

Dear Friends,

It is a privilege to welcome all of you attending the 25th Anniversary of the New York State Bar Association's Entertainment, Arts and Sports Law Section.

As you know so well, lawyers and judges are essential to providing the equal justice that guarantees Americans the rights of life, liberty and the pursuit of happiness. Your efforts have strengthened that principle of equality for all Americans. It is my hope that your efforts serve as an example of the positive contributions an individual can make to his or her profession, community and country. Your determination continues to enhance our civil justice system and further the ideal of equal justice for all Americans.

Please accept my best wishes for a wonderful evening and many years of continued success.

Sincerely,

Kirsten E. Gillibrand

Kirsten E. Gillibrand
United States Senator

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CHARLES E. SCHUMER
NEW YORK

COMMITTEES:
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FINANCE

United States Senate
WASHINGTON, DC 20510

January 2013

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

Dear Friends:

Please accept my warmest greetings and congratulations as the New York State Bar Association's Entertainment, Arts and Sports Law Section celebrates its 25th Anniversary in 2013, celebrating the legal prowess of the EASL Section attorneys and their hard work. I am fortunate to have this opportunity to recognize the outstanding work of the EASL Section of the New York Bar Association on the auspicious occasion.

As a repository for legal analysis and theories, The Entertainment, Arts and Sports Law Journal contains the crux of information and major legal issues that esquires will face on a daily basis and as such contributes a great deal to the effectiveness of the Entertainment, Arts and Sports section. For the past twenty five years, the EASL Section has been a leader in innovative pro bono activities and on the forefront of timely and affordable programming for lawyers. With informative articles on current cases, the EASL Section greatly contributes to the effectiveness of the bustling industry. I applaud the EASL Section for its commitment and dedication to help the community at large.

Once again, congratulations on behalf of all New Yorkers and thank you for your unwavering dedication and commitment to excellence in the Entertainment, Arts and Sports Law Section of the New York State Bar Association. I hope that the EASL will continue to serve New York State residents for many years to come. Best wishes for a momentous year ahead.

Sincerely,

Charles Schumer

Charles E. Schumer
United States Senator

STATE OF NEW YORK
EXECUTIVE CHAMBER
ALBANY 12224

ANDREW M. CUOMO
GOVERNOR

January 22, 2013

Dear Friends:

It is a pleasure to send greetings and congratulations to the Entertainment, Arts and Sports Law (EASL) Section of the New York State Bar Association (NYSBA), as you celebrate your 25th anniversary.

The time-honored role of our legal community has been to protect and preserve peoples' rights, and the various sections of the NYSBA exemplify this tradition upheld by attorneys working in specific areas of the law. Members of the Entertainment, Arts and Sports Law Section demonstrate a depth of knowledge in representing a diverse constituency and focusing on matters related to media, entertainment, telecommunications, and technology.

The EASL Section is recognized for its efforts to further the professional growth and education of attorneys familiar with the legal complexities of an ever-growing business. I applaud your work to advance the interests of your members who serve a population of entertainers, artists, and sports figures known worldwide, and for maintaining the highest standards of responsible jurisprudence.

Congratulations on marking this milestone and best wishes for a wonderful celebration.

Sincerely,

ANDREW M. CUOMO

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

Thursday, December 27, 2012

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

Dear Colleagues:

On behalf of the staff of the United States Copyright Office, please accept my congratulations for the celebration of your 25th year.

I am a former member of the Entertainment, Arts and Sports Law Section. It was a key organization for me during my early career in New York, and I fondly recall the meetings, the members, the programs and, of course, the Journal.

Today, when I think of the members of this Section, I think of the tremendous experience and expertise you bring to the practice of law. Indeed, your many contributions are a major pulse of the copyright field. And, in turn, you play a critical role in informing the development of copyright policy.

With kind regards and Happy Anniversary.

Sincerely yours,

Maria A. Pallante

Maria A. Pallante
Register of Copyright and Director
U.S. Copyright Office

Commissioner for Trademarks
P.O. Box 1451
Alexandria, VA 22313-1451
www.uspto.gov

November 20, 2012

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

Dear Members:

Congratulations to the Entertainment, Arts and Sports Law Section on its Silver Anniversary. For twenty-five years, you have contributed to the advancement of trademark law - a commendable achievement!

Part of our mission at the United States Patent and Trademark Office is to guide domestic intellectual property policy and to promote IP information and education worldwide. Organizations like yours are indispensable in helping develop a greater public understanding of intellectual property law, and *The Entertainment, Arts, and Sports Law Journal* helps shape future trademark policy by serving as a forum where cutting-edge IP issues can be discussed.

As you celebrate a quarter century of excellence, allow me to thank you for your past and continuing contributions to trademark law and intellectual property in general. My best wishes to all of you.

Sincerely,

Deborah S. Cohn
Commissioner for Trademarks
United States Patent and Trademark Office

NYSBA Guidelines for Obtaining MCLE Credit for Writing

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

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

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

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

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

Pro Bono Update

By Elissa D. Hecker, Carol Steinberg, Kathy Kim and Irina Tarsis

Pro Bono Steering Committee

History

In 2002, Elissa D. Hecker created the Pro Bono Steering Committee and Elisabeth K. Wolfe was its first Chair. Since then, our mission has been to make pro bono resources available to all EASL members, and to be a leader in pro bono efforts for the NYSBA. Over the years we have had excellent members of our Steering Committee (in addition to Elissa and Elizabeth), including Kathy Kim, Philippa (Pippa) Loengard, Monica Pa, Christine Pepe, Carol Steinberg, and Irina Tarsis.

In 2003, EASL was instrumental in lobbying for the expanded definition of "pro bono" to include legal work provided to individual artists as well as arts-related and educational organizations. We were so proud soon thereafter when that definition was successfully expanded. There is now a greater need than ever for legal help within the arts communities, and the goal of the Pro Bono Steering Committee is to have every EASL member be able to offer pro bono services to those who are in need.

Clinics and Legal Assistance

Over the past decade, EASL has run Pro Bono Legal Clinics with Volunteer Lawyers for the Arts (VLA), the Directors Guild, Actor's Equity, Dance / NYC, and New York Foundation for the Arts (NYFA). Our pro bono efforts were recognized by Volunteer Lawyers for the Arts, when the EASL Section received the VLA Arts Law Clinics Pro Bono Service Award. EASL also encouraged the IP Section to create its own Pro Bono Committee, and together the Sections provide pro bono opportunities for members during every Clinic.

Recognizing that the lack of malpractice insurance coverage was a barrier to attorneys becoming involved with pro bono, the EASL Section acquired malpractice coverage for its Clinic volunteers, and a few years ago invited the IP Section to partner with it under the yearly policy. Malpractice coverage has since been provided for those who needed it during each Clinic. Participation increased dramatically when EASL and IP Section members learned that malpractice insurance was available.

Referral Service

The Pro Bono Steering Committee also tries to assist those struggling artists whose issues are not resolvable in a Clinic by matching them with experienced attorneys who may be willing to accept their issues either pro bono or for a reduced fee. This includes both transactional and litigation matters. In 2011, we expanded our legal assistance to include litigation pro bono. To this effect, we have a list of attorneys available to consult.

In addition, legal needs are not limited to entertainment, art or sports-related issues. The Pro Bono Steering Committee is working to create a directory of attorneys able to help artists and entertainers with matters outside the scope of EASL practice areas.

Speakers' Bureau

Over the years, many artist organizations and art schools informally asked EASL members to be speakers and provide programs on various legal issues. We realized that there was a great need to provide legal education and that artist / entertainer groups were hungry for an understanding of basic legal issues that govern their creative works. Recognizing that the expertise among EASL attorneys was vast and varied, and that there were many attorneys who generously spoke on a pro bono basis, we set up a Speakers' Bureau to coordinate the list of attorneys by subject area and expertise. This outreach to New York-based arts and entertainment communities let them know that we could provide speakers on legal issues within EASL's purview, and to schedule and accommodate their requests.

The Speakers' Bureau presents programs to educate artists and entertainers on various issues of relevance to their communities. Many experienced EASL members have volunteered their time and expertise to speak to groups throughout the State. In fact, the response to requests to speak has been so overwhelming that often there are more volunteers than needed. Speaking opportunities reach across the spectrum of EASL issues, and we are always interested in reaching new groups and involving new attorney volunteers.

Below are just a few of the programs held from 2011 through 2012 that included Speakers' Bureau participation:

- Recognizing that designers need to safely pitch their ideas to potential clients, a panel called "Protecting Your Ideas in Tough Economic Times" was presented at The School of Visual Arts (SVA) in New York City.
- Hearing from many artists that their business skills needed to be honed, we also presented a panel called "Setting Up Your Arts Business" to SVA 's students and alumni. A representative from the Graphic Artists Guild covered practical pointers. Speakers' Bureau attorneys covered the basics of business entities, along with an accountant, and

the basics of contracts, and there was plenty of time for questions.

- Responding to requests from various organizations, we presented programs on "Workmen's Compensation Issues for Dancers," and "Copyright and Contracts Issues" for visual artists and writers associated with Fountain House, an organization dedicated to the recovery of people with mental illness.

- We collaborated with EASL's Fine Arts Committee to present a panel on "Legal Issues for Artists in Bushwick" to kick-off the Bushwick Open Studio Weekend.

- In another collaboration with the Fine Arts Committee, the Speakers' Bureau co-hosted a program with the Cardozo Art Law Society entitled "Creative Time" at the Benjamin N. Cardozo Law School. Law students were inspired by the organization's ground-breaking public art and for opportunities to provide pro bono work. The program attracted a wonderful cross-section of students, artists, lawyers, and arts educators, who commented that the program was truly excellent.

- The Speakers' Bureau offered a program on legal issues facing musicians at the union, Local 802, which is a member of the American Federation of Musicians. Attendees were educated about copyright law and how to protect their artistic works.

Working with NYFA

EASL has formed a creative and professional alliance with NYFA. We have provided speakers for NYFA programs across the state, organizing and coordinating programs, and offering Clinics as part of the development of a productive relationship that should last long into the future.

Our first project with NYFA was a day-long program on legal issues for dancers. The program was directed to participants of NYFA's BUILD program, which provides administrative and entrepreneurial training for dance companies. The keynote address was delivered by Immediate Past EASL Chair Judith Prowda, about the Martha Graham lawsuit (*Martha Graham School and Dance Foundation, Inc. v. Martha Graham Center of Contemporary Dance, Inc.*, 380 F.3d 624 (N.Y. 2d. 2004). A representative from the Martha Graham Dance School also addressed the participants. There was a panel on how to deal with contracts, the basics of various business entities, issues facing non- profits, and how to use social networking to increase audiences. The successes of the program led to many more collaborations between the Pro Bono Steering Committee and NYFA.

We have also provided numerous speakers and group discussion leaders for NYFA 's Boot Camps. For example, in the summer of 2012, NYFA collaborated with New York University on a Boot Camp for performing artists. Jason Aylesworth and Carol Steinberg presented the main lectures on Contracts and Copyright. Then the participants were divided into groups based upon their specific disciplines: music, film, theater, or dance. Other EASL attorneys, including Diane Krausz, Cory Greenberg, David Davoli, and Jason Aylesworth, led the discussion groups, helping the artists apply the contents of the lectures to their specific creative work.

Thank You!

Together with our partnering organizations, the EASL Section's members help countless New York artists and entertainers to do what it is that they do best—create. Thank you so much for doing your best to help those who cannot afford to pay for counsel.

* * *

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

Clinics

Elissa D. Hecker and Kathy Kim are coordinating legal clinics with various organizations.

- Elissa D. Hecker, **eheckeresq@eheckeresq.com**

- Kathy Kim, **kathykimesq@gmail.com**

Speakers' Bureau

Carol Steinberg is coordinating Speakers' Bureau programs and events.

- Carol Steinberg, **elizabethcjs@gmail.com**

Litigations

Irina Tarsis is coordinating pro bono litigations.

- Irina Tarsis, **tarsis@gmail.com**

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

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

Law Student Initiative Writing Contest

Congratulations to the 2012 LSI winners

DANIELLE CLOUT, of St. John's University School of Law, for her article entitled:
"Bringing Broadcast Television to the Internet: Aereo Will Not Survive Legal Challenges"

PAIGE DOWDAKIN, of the University of Illinois College of Law, for her article entitled:
"Defense Wins the Game: An Analysis of University Liability Exposure in Club Sports"

JENNA BASS LEVY, of New York University School of Law, for her article entitled:
"Legal Issues for Employers from Celebrity Tweeting"

CASSIDY MERRIAM of Brooklyn Law School, for her article entitled:
"Of All the Lawsuits, in All the Courts, in All the World, They Had to Settle This One: What We Didn't Learn About Rights of Publicity and Social Media from *Bogart v. Burberry*"

EMILY SCHALL, of St. John's University School of Law, for her article entitled:
"The FTC'S Green Guidelines and Their Impact on the Future of Fashion and Sustainable Style"

The Entertainment, Arts and Sports Law (EASL) Section of the New York State Bar Association offers an initiative giving law students a chance to publish articles both in the *EASL Journal* as well as on the EASL Web site. The Initiative is designed to bridge the gap between students and the entertainment, arts and sports law communities and shed light on students' diverse perspectives in areas of practice of mutual interest to students and Section member practitioners.

Law school students who are interested in entertainment, art and / or sports law and who are members of the EASL Section are invited to submit articles. This Initiative is unique, as it grants students the opportunity to be ***published and gain exposure*** in these highly competitive areas of practice. The *EASL Journal* is among the profession's foremost law journals. Both it and the Web site have wide national distribution.

Requirements

- **Eligibility**: Open to all full-time and part-time J.D. candidates who are EASL Section members.
- **Form**: Include complete contact information; name, mailing address, law school, phone number and email address. There is no length requirement. Any notes must be in *Bluebook* endnote form. An author's blurb must also be included.
- **Deadline**: Submissions must be received by **Friday, April 26, 2013**
- **Submissions**: Articles must be submitted via a Word email attachment to eheckeresq@eheckeresq.com.

Topics

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

Judging

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

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

The Phil Cowan Memorial/BMI Scholarship

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

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

The Competition

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

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

Eligibility

The Competition is open to all students attending eligible law schools. "Eligible" law schools mean all accredited law schools within New York State, along with Rutgers University Law School and Seton Hall Law School in New Jersey, and up to 10 other accredited law schools throughout the country to be selected, at the Committee's discretion, on a rotating basis.

Free Membership to EASL

***All students* submitting *a paper for consideration will immediately and automatically be offered a* free membership in EASL (with all the benefits of an EASL member) for a one-year period.**

Yearly Deadlines

December 12th: Law School Faculty liaison submits 3 best papers to the EASL / BMI Scholarship Committee.

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

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

Prerogatives of EASL/BMI's Scholarship Committee

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

Payment of Monies

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

About BMI

BMI is an American performing rights organization that represents approximately 350,000 songwriters, composers and music publishers in all genres of music. The non-profit-making company, founded in 1940, collects license fees on behalf of those American creators it represents, as well as thousands of creators from around the world who chose BMI for representation in the United

States. The license fees BMI collects for the "public performances" of its repertoire of approximately 4.5 million compositions are then distributed as royalties to BMI-member writers, composers and copyright holders.

About the New York State Bar Association / EASL

The 76,000-member New York State Bar Association is the official statewide organization of lawyers in New York and the largest voluntary state bar association in the nation. Founded in 1876, NYSBA programs and activities have continuously served the public and improved the justice system for more than 125 years.

The more than 1,700 members of the Entertainment, Arts and Sports Law Section of the NYSBA represent varied interests, including headline stories, matters debated in Congress, and issues ruled upon by the courts today. The EASL Section provides substantive case law, forums for discussion, debate and information-sharing, pro bono opportunities, and access to unique resources including its popular publication, the *EASL Journal.*

Initiative: The Phil Cowan/BMI Memorial Scholarship

Toward the end of Judith Bresler's tenure as the Millennium Chair of EASL (2000-2002), Phil Cowan, a founding member and former Chair of EASL, died after a courageous battle with cancer. Phil was an exceptional human being in so many respects and to honor his memory the EASL Section, including a number of former Section Chairs—Founding Chair Marc Jacobson, Eric Roper, Howard Siegel, John Kettle, Sam Pinkus and Tim DeBaets—took steps to implement what is now the Phil Cowan / BMI Memorial Scholarship which, on a yearly basis, awards monies to as many as two deserving law students who are committed to practicing in the legal fields of entertainment, art, sports or copyright—practice areas central to Phil's interests. BMI came onboard as a partner through the sustained—and enormously appreciated—efforts of Gary Roth, who has ably chaired a number of EASL committees as well as having served the Section as Member-at-Large. Through this Scholarship initiative, EASL has awarded such Scholarships each year since 2005, based on a writing competition open to law students enrolled in all the accredited law schools throughout New York State as well as Rutgers University Law School and Seton Hall University in New Jersey. In addition, BMI selects on an annual rotating basis up to ten other law schools throughout the United States to participate in the Scholarship writing competition.

The Committee is co-chaired by former Section Chair Judith Bresler of Withers Bergman LLP, Acting Justice Barbara Jaffe of the Supreme Court of the State of New York and Richard Garza, Senior Director, Legal and Business Affairs, Performing Rights, BMI.

Mediation in Film, Television, Art and Real Life

By Judith B. Prowda and Jason Aylesworth

Introduction

Conflicts are often dramatized in film, literature and other art forms. Anyone who has grown up watching Perry Mason can attest that the excitement of the courtroom, as usually portrayed through the heated adversarial actions of the litigators, is what drives the story. In real life, however, litigation is often protracted, subject to countless motions, lengthy discovery, grueling depositions, repeated delays and mounting frustration. Not exactly fodder for a fast-paced drama on the screen.

Sometimes the art itself is the subject of the conflict. A dispute might occur between a gallery and artist over a representation agreement, an expert and executor over the valuation of an estate, a buyer and seller of art over a warranty of authenticity, a nation seeking the return or restitution of a cultural treasure, or an heir of a Holocaust victim claiming ownership to a work of art in a public or private collection. As in the movies, parties involved in such an art dispute typically resort to litigation. Yet art professionals, like business people in other entertainment-oriented fields, recognize that litigation can be enormously expensive, time consuming, and destroy any possibility of future relationships, either business or personal. In addition, litigation is generally a matter of public record, and may have an adverse effect on business and the reputation of the parties, which are enormously valuable in the art world. By contrast, mediation[1] is typically more efficient in terms of cost and time, and has the advantage of being private and confidential. Alternative dispute processes are normally consensual, meaning that the parties would either need to agree to a contractual Alternative Dispute Resolution (ADR) provision for future disputes, or voluntarily chose a form of ADR for their existing dispute. ADR can also be mandated by a competent court, or established by law or treaty.[2]

This article highlights the sparse portrayal of mediation in film and television, showcasing an albeit brief evolution from fictionalized divorce proceedings between spouses (the familiar setting for mediation conferences) to dramatized clashes amongst musicians and other artists (the growing trend in the entertainment industry). It explores a practical real life account of how in recent years disputes involving art and cultural property are increasingly being resolved by mediation, in a more efficient and sustainable manner.

I. Mediation Portrayed in Film and Television

Hollywood has offered strong depictions of litigators over the last 25 years, but has been weak on mediators. Perhaps that is because courtrooms provide a formal arena where attorneys battle for absolute victory, creating dramatic tension between the antagonist and protagonist. Mediation conferences, on the other hand, may offer sparks during the first act, but ultimately climaxes are tame due to an "everybody wins" conclusion. Entertainment is truly the primary goal of most film and television works, but education has always been a close second.

Most audiences are not familiar with mediation due to a lack of depictions in both film and television. One of cinema's first purported "mediations" was in the film *Disclosure*.[3] The central plot of the film involved a work-related sexual harassment dispute between a male employee (played by Michael Douglas) and his female boss (played by Demi Moore). Immediately after the claims are made, both parties must attend a mediation conference. The problem is that the mediation portrayed in this movie was actually an arbitration hearing.[4] Even though it is a step forward for proponents of ADR to have mediation dramatized in a commercial film, this misstep illustrates the confusion of a moviegoer who believes he or she is watching a mediation conference. This may seem like a trivial point, but audiences are influenced by Hollywood's depiction of reality in the legal world. If stories through celluloid and digital media could sway viewers towards ADR, those spectators may actually transform pre-conceived litigious fights into cooperative solutions for all.

The leading area of practice where mediation has been portrayed over the last 25 years has been with domestic disputes, particularly in divorce proceedings. Prior to this period, most divorces were fought within family courts. One of the most memorable films that showcased a heartbreaking divorce through litigation was *Kramer vs. Kramer*.[5] Not only did the movie demonstrate the financial burden of a contentious divorce, but it also illustrated how litigation could emotionally destroy an already wounded family who wanted to move on with their lives separately. What was ultimately resolved between the husband and wife (played by Dustin Hoffman and Meryl Streep), was that they found a mutual interest in agreeing on what was best for their only child. Despite falling out of love with each other, they had a common priority in deciding what was best for their son. A mediator may have helped reach that conclusion much sooner. Instead, both attorneys representing the estranged partners used hurtful tactics to gain false power in the battle between Kramer and Kramer, creating obstacles in trying to reach a resolution. While it is surprising that it took Hollywood about 25 years from *Kramer vs. Kramer* to portray how effective a mediator can be in a divorce proceeding, it is more surprising that it was shown in a raunchy comedy.

The opening scene of *Wedding Crashers*[6] was played for comic effect, but it was probably the closest scene in celluloid to capture a mediation session. Vince Vaughn and Owen Wilson serve as mediators. They are in the midst of resolving the issue of who will retain the former couple's frequent flyer miles. The husband and wife engage in a heated exchange, jabbing each other with accusations and insults, but by the end of the five-minute scene, they eventually work out the frequent flyer miles, and it appears that all other terms have been settled. However, the husband suggests that the two mediators cease speaking. Why? Possibly because the mediators offered that marriage was a ridiculous institution and that the parties should put their swords away in an effort to move on. The husband may have been somewhat insulted by the mediators, feeling that he was naïve to get married in the first place (and it is true that both mediators were swinging bachelors and proud of it), but the mediators did accomplish the goal of the parties in the room (including the frustrated attorneys representing the husband and wife): to agree to an equitable distribution of the marital property, and to move on with their lives separately. Unlike litigators, mediators listen to all parties involved and collaborate to achieve an interest-based solution where everyone walks away with some humanity. The outcome of the opening scene in *Wedding Crashers* was not about who was right or wrong about getting married; it was about realizing that both parties made a mutual mistake that could be resolved without destroying the relationship any further.

Mediation has evolved in the media as it has evolved in other areas of law. One television series whose main character was a mediator was the recently cancelled *Fairly Legal*.[7] In its two abbreviated seasons, a wide variety of disputes were showcased on a weekly basis and viewers watched how those disputes were resolved by the mediator rather than be decided by a judge. Only a few of cases involved domestic relations disputes. Stories about wrongful termination, intellectual property rights, scholastic coaching practices, exonerated citizens, and tortious actions were told through the show. Even one episode, entitled *Ultravinyl*,[8] focused on two entertainment-related disputes. In it, a publishing company was trying to get the original band members to execute a license to assign rights to a one-hit wonder. The underlying problem was that two of the band members did not want anything to do with the third band member. While the mediator recognized the goal of exploiting the song, she also recognized that there are some other issues which were keeping the parties apart. Using information-gathering techniques, she uncovered the honest desires of the band members, and was able to arrive at a solution while maintaining relationships to the best of her ability.

The other dispute in this episode of *Fairly Legal* involved an online battle in the gaming world, which was secondary to the overarching music publishing quarrel. The fighting parties insisted on communicating through avatars, but the mediator felt that communicating in person facilitated the negotiations. What was fascinating here was that the parties were not hiding behind a digital fantasized character, nor protected by a powerful litigator. On the contrary, they were able to voice their concerns in person, without the theatrics, and maintain a relationship with each other not only in the virtual gaming universe, but in the real world as well.

Besides music publishing and online role-playing game disputes, mediation has been an effective tool in other areas of entertainment, including fine art.

II. Mediation of Art-Related Disputes

Whether mediation is portrayed in fantasy on screen or practiced in reality, its perception has gained acceptance in entertainment-oriented fields, including visual art. Disputes over the ownership of artworks, for example, are increasingly settled with the assistance of a mediator. Litigation of such disputes, which are often amongst multiple claimants from different jurisdictions, can be complicated by conflicts of laws on statutes of limitation and approaches as to what constitutes legal title to stolen property, which differ in common and civil law countries. Due to the international dimension, as well as the expense and unpredictability of litigation, it makes sense to consider non-binding mediation or binding arbitration (or a combination of both)[9] as a dispute resolution process. Creative solutions may be obtained in mediation by exploring each party's interests, including non-monetary concerns. A court decision, by contrast, will generally result in a winner-take-all situation, and is limited to deciding the matter before it, not in formulating options for the parties.

In recent years, art businesses and other organizations have trained professionals who are dedicated to dispute resolution over ownership challenges. Auction houses, such as Christie's and Sotheby's, attempt to resolve claims of ownership amongst multiple claimants quietly and efficiently. Christie's Restitution Department has established principles of fairness, consistency and practicality in resolving Nazi-era art restitution claims, vetting provenance, and seeking just and fair solutions where problems arise.[10] Likewise, Sotheby's occasionally recommends non-binding confidential mediation to its clients.[11]

The Art Loss Register also regularly negotiates and mediates art-related disputes. To illustrate, in 2010, a work by the 18th century German artist Johann Zoffany, billed as the star lot of a sale of the contents of Gianni Versace's Lake Como villa, was withdrawn from a sale at a Sotheby's auction in London. Versace had purchased the work 15 years earlier without knowing its provenance or realizing that it was painted by the celebrated artist or stolen from its previous owner in 1979. The Art Law Register resolved the matter amicably, and the painting was returned to the original owner under confidential terms.[12]

The same principle is operating in the museum world, where the return of a contested work or works to the original owner is combined with a counterpart loan of different works altogether. For example, in 2006, the Metropolitan Museum of Art (Met) returned the Euphronious crater and other objects in its collection to Italy in exchange for long-term loans of other antiquities of "equivalent beauty and importance."[13] Here, the Met accepted no liability for acquiring objects which were determined to have been looted, maintaining that it bought them in good faith.[14] Similar agreements were reached between Italy and the Boston Museum of Fine Arts in 2006[15] and the J. Paul Getty Museum in 2007.[16]

In the art and cultural heritage arena, the International Council of Museums (ICOM) and the World Intellectual Property Organization Arbitration and Mediation Center (WIPO) partnered in 2011 to set up a not for profit mediation center with procedures adapted to the settlement of cultural property disputes involving museums.[17] In addition, at its 16th Session in Paris in 2010, the United Nations Educational Scientific and Cultural Organization (UNESCO) adopted Rules of Procedure for Mediation and Conciliation for the resolution of requests for the return or restitution of cultural property. Under these Rules, parties may select mediators or conciliators[18] amongst independent experts for the restitution or return of certain cultural objects of fundamental significance.[19]

Concerning Holocaust-era claims, governmental advisory commissions, such as the New York State Banking Department Holocaust Claims Processing Office[20] and the UK Department of Culture, Media and Sport Spoliation Advisory Panel,[21] serve as intermediaries in cultural property disputes. Additionally, since the German "Advisory Commission on the return of cultural property seized as a result of Nazi persecution, especially Jewish property (Beratende Kommission)"[22] was founded in 2003, it has issued four recommendations on restitution claims brought before it.[23] Other national commissions on Holocaust-related art claims that have issued new recommendations or otherwise assisted in the resolution of such disputes include the Austrian Commission for Provenance Research[24] and the Dutch Advisory Committee on the Assessment of Restitution Applications for Items of Cultural Value in the Second World War.[25]

In a recent initiative to train "current and future professionals of various backgrounds who are or will soon be engaged in dealing with Nazi-era looted cultural property and related post-Holocaust issues," intensive provenance training workshops are organized by the Provenance Research Training Program (PRTP).[26] This program is a project of the European Shoah Legacy Institute, which was created by the Czech Ministry of Foreign Affairs in furtherance of the Holocaust Era Assets held in Prague in 2009 and the resulting Terezín Declaration.[27] Issued by 46 states on June 30, 2009, the Terezín Declaration refers to "alternative processes" and "alternative dispute resolution" for facilitating "just and fair solutions" in matters relating to Nazi-confiscated and looted art, thereby confirming principle 11 of the Washington Principles of 1998. The PRTP focuses on provenance research and related issues concerning Nazi-looted art, Judaica, and other cultural property. The first workshop was held in Magdeburg, Germany in June 2012, followed by another in Zagreb, Croatia in March 2013.[28]

Furthermore, several non-profit organizations dedicated to art research, such as the International Foundation for Art Research (IFAR)[29] and the Commission for Looted Art in Europe (CLAE),[30] also provide information and assistance in the restitution process.

Finally, in 2010, the Geneva Art-Law Centre at the University of Geneva launched a research project that studies ADR methods for art-related disputes. The Art-Law Centre's research project includes the creation of a comprehensive database that documents art-related disputes worldwide that were resolved by means of ADR methods, as well as a thorough case analysis.[31]

III. Conclusion

While mediation scenes in films and television may not be as dramatic as litigious ones, they do offer audiences a satisfying resolution. Most audiences do not want open-ended storylines; they want some sort of closure. When a television series ends or a film trilogy concludes, the audience can discover other entertaining programs. The same principle holds true when choosing mediation as a forum: at the conclusion of the session, the parties will be able to move on with their lives rather than remain in a contentious dispute. Both *Wedding Crashers* and *Fairly Legal* have been able to educate audiences through entertaining stories about the benefits of mediation, but this is a thin representation of how effective mediation can be in real life situations. As illustrated by the global sensation of modern mediation practices in fine art, this mechanism has not only reached seasoned attorneys all over the world, but it has also taught their clientele the benefits of settling differences on an expedited basis without the financial burden imposed by litigation.

Endnotes

1. Mediation is a confidential negotiation facilitated by a neutral third party. In a mediation, the parties control the process and decide the outcome. It is distinct from other forms of alternative dispute resolution, such as arbitration, in which an arbitrator or panel of three arbitrators renders an award that is binding on the parties. *See* Judith B. Prowda, *The Art of Resolving Art Disputes: A Case for Mediation*, *in* All About Appraising: The Definitive Appraisal Handbook (Appraisers Ass'n of Am., 2d ed.) (expected publication in 2013).
2. *See* Sarah Theurich, *Update on alternative dispute resolution in the art and cultural heritage sector*, IBA Art, Cult. Institutions & Heritage L. J. (Aug. 2009), *available at* http://www.ibanet.org/Article/Detail.aspx?ArticleUid=c93cf2fa-f5f6-4a64-a7d1-8bd907fdf3dd.
3. *Disclosure* (Warner Bros. Pictures 1994).
4. Arbitration is a form of ADR conducted in a private setting where the parties agree to be bound by the ruling of an arbitrator or short panel of arbitrators. Unlike mediators, arbitrators do not assist adversarial parties on reaching a settlement. The arbitration in *Disclosure* was to determine the validity of the sexual harassment claims in the employer/employee relationship.

5. *Kramer vs. Kramer* (Columbia Pictures 1979).

6. *Wedding Crashers* (New Line Cinema 1995).

7. *Fairly Legal* (Universal Cable Productions 2011-2012).

8. *Fairly Legal: Ultravinyl* (USA Network television broadcast Mar. 20, 2011).

9. Since ADR procedures are flexible, they may be combined. For example, the parties may agree to attempt to settle the dispute in an initial phase, and if they fail, they will submit their dispute to arbitration. This is commonly referred to as "med-arb." This hybrid approach is becoming increasingly popular. If the mediation reaches an impasse, or if issues remain unresolved, the parties can then proceed to arbitration, which is binding. The mediator can assume the role of arbitrator (if qualified) and render a decision, or an arbitrator can take over the case after consulting with the mediator.

10. *See generally* Christie's, *Art Restitution*, http://www.christies.com/services/restitution/.

11. *See* Lucian Simmons, Paper Delivered at the Holocaust Era Assets Conference in Prague: Provenance and Private Ownership: Just and Fair Solutions in the Commercial Art Market (June 28, 2009), *available at* http://www.commartrecovery.org/sites/default/files/docs/events/LucianSimmonsPaperforPrague.pdf. Sotheby's opened a department dedicated to provenance research and restitution in 1997. The department is comprised of a team of restitution experts in London and New York, supplemented by consultants as necessary.

12. Jonathan Brown, *Versace's stolen art returned to its real owners—in Dorset*, The Independent (Nov. 23, 2010), *available at* http://www.independent.co.uk/arts-entertainment/art/news/versaces-stolen-art-returned-to-its-real-owners-ndash-in-dorset-2141130.html.

13. Randy Kennedy and Hugh Eakin, with Elisabetta Povoledo reporting from Milan, The Met, Ending 30-Year Stance, Is Set to Yield Prized Vase to Italy, NYT, Feb. 3, 2006, at http://query.nytimes.com/gst/fullpage.html?res=9C0DE2DE163EF930A35751C0A9609C8B63&&scp=4&sq=euphronios%20krater&st=cse.

14. *Id.*

15. Elisabetta Povoledo, *Boston Museum Returns 13 Ancient Works to Italy*, N.Y. Times, Sept. 29, 2006, *available at* http://www.nytimes.com/2006/09/29/arts/design/29mfa.html; *See also* Museum of Fine Arts, Boston, *Italian Ministry of Culture Agreement*, http://www.mfa.org/collections/art-past/italian-ministry-culture-agreement.

16. Elisabetta Povoledo, *Italy and Getty Sign Pact on Artifacts*, N.Y. Times, Sept. 26, 2007, *available at* http://www.nytimes.com/2007/09/26/arts/design/26gett.html?_r=0.

17. *See* WIPO, *ICOM-WIPO Art and Cultural Heritage Mediation*, http://www.wipo.int/amc/en/center/specific-sectors/art/icom/. The ICOM-WIPO rules are available at http://www.wipo.int/amc/en/center/specific-sectors/art/icom/rules/. *See also* Sarah Theurich, *Alternative Dispute Resolution in Art and Cultural Heritage Explored in the Context of the World Intellectual Property Organization's Work*, 8 Kulturgüterschutz—Kunstrecht—Kulturrecht 569, 569-94 (Kerstin Odendahl & Peter Johannes Weber eds., 2010), *available at* http://www.wipo.int/export/sites/www/amc/en/docs/theurichbeitrag.pdf.

18. A conciliator refers to a third party neutral who makes a recommendation to the parties that they can accept or ignore, in other words, an evaluative mediator. A mediator facilitates a discussion between the parties. A facilitative mediator does not offer an opinion on the strength or weakness of each side's argument.

19. *See* UNESCO, *Intergovernmental Committee for Promoting the Return of Cultural Property to Its Countries of Origin or Its Restitution in case of Illicit Appropriation* (Oct. 12, 2007), http://portal.unesco.org/culture/en/ev.php-URL_ID=35283&URL_DO=DO_TOPIC&URL_SECTION=201.html. *See also* Theurich, *supra* note 2.

20. *See generally* N.Y. State Dept. of Fin. Serv., *Holocaust Claims Processing Office*, http://www.dfs.ny.gov/consumer/holocaust/hcpoindex.htm.

21. *See generally* Department for Culture, Media, and Sport, *Spoliation Advisory Panel*, http://www.culture.gov.uk/what_we_do/cultural_property/3296.aspx.

22. *See generally* Lootedart.com, *Art Commissions: Advisory Commission on the return of cultural property seized as a result of Nazi persecution* (Beratende Kommission), http://www.lootedart.com/MFEU4E88305.

23. *Id.*

24. *See generally* Commission for Provenance Research, *Recommendations*, http://www.provenienzforschung.gv.at/index.aspx?ID=24&LID=2.

25. *See generally* Restitutiecommissie, http://www.restitutiecommissie.nl/en.

26. *See generally* Lootedart.com, *Provenance Research Training Program Workshop, Magdeburg, Germany 10-15 June 2012*, http://www.lootedart.com/PAJ3QI149491.

27. *See* Holocaust Era Assets Conference, *Terezin Declaration*, http://www.holocausteraassets.eu/en/news-archive/detail/terezin-declaration/.

28. Additional information about the Provenance Research Training Program available at http://provenanceresearch.org/.

29. For additional information about IFAR as well as summaries of cases and settled art disputes, *see* http://www.ifar.org/.

30. *See generally* Commission for Looted Art in Europe, *About Us*, http://www.lootedartcommission.com/Services.

31. The Geneva Art-Law Centre (www.art-law.org) is a non-profit Swiss foundation created in 1991 and now fully integrated into the Law Faculty of the University of Geneva. For additional information, *see generally* Art-Law, *ADR and Art-Law*, http://www.art-law.org/centre/recherches/fns_en.html. *See also* Anne Laure Bandle & Sarah Theurich, *Alternative Dispute Resolution and Art-Law—A New Research Project of the Geneva Art-Law Centre*, 6 J. Int'l Comm. L. & Tech.1 (2011), *available at* http://plone2.unige.ch/art-adr/Affaires/case-terrestrial-globe-saint-gall-v.-zurich/Bandle%20and%20Theurich%20-%20Alternative%20Dispute%20Resolution%20and%20Art-Law.pdf/view.

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Report from the Copyright and Trademark Committee (25 Years)

By Jay Kogan and Britton Payne

The rapid growth of technology over the last 25 years allowing for the new creation, reproduction, modification, distribution, exhibition and display of copyrighted works as well as new ways to locate and respond to allegedly infringing works has resulted in volumes of copyright law developments, including landmark and other notable decisions, substantial pieces of copyright legislation, and the creation of many new devices and business models challenging the goals of copyright law, both with respect to giving authors the incentive to create and the ability of copyright owners to protect their rights. Of course, this has given EASL's Copyright and Trademark Committee plenty of material for its ongoing programs. Set forth below is a timeline of some of the major copyright law developments over the last 25 years.

1987

Unpublished Writings

Fair use does not apply to the expressive content of J.D. Salinger's unpublished writings. *Salinger v. Random House, Inc.*, 811 F.2d 90 (2d Cir.), following *Harper & Row, Publishers, Inc. v. Nation Enters.*, 471 U.S. 539 (1985).

Separating Idea from Expression

Analysis of the difference between "works of applied art" and "industrial designs not subject to copyright protection." *Brandir Int'l v. Cascade Pacific Lumber Co.*, 834 F.2d 1142 (2d Cir.).

1988

United Kingdom

The United Kingdom reformulates its copyright law with the Copyright, Designs and Patents Act 1988.

Copyright Notices

The Copyright Act is amended to make the use of copyright notice on published copies optional. The Berne Convention Implementation Act.

1989

HTML

Tim Berners-Lee creates the World Wide Web using hypertext protocol to make the Internet user friendly, opening the door for a generation of copyright conflicts.

Berne Convention

The United States became a member of the Berne Convention for the Protection of Literary and Artistic Works.

Works for Hire

The Supreme Court holds that whether there is an employer / employee relationship such that the statutory author of a work is the employer or the artist under the "works for hire" doctrine is to be evaluated by a multifactor test. *Community for Creative Non-Violence v. Reid*, 490 U.S. 730.

1990

Software Rental

The Computer Software Rental Amendments Act grants copyright owners the exclusive right to authorize or prohibit the rental, lease, or lending of computer programs for commercial purposes. The amendment to the Copyright Act, modifying the first sale doctrine, creates an exception for libraries provided the "copy of a computer program which is lent by such library has affixed to the packaging containing the program a warning of copyright."

State Liability for Infringement

The Copyright Act is amended to provide that states and state employees and instrumentalities are not immune to liability for copyright infringement under the Eleventh Amendment. 17 U.S.C. § 511. This amendment was first found unconstitutional in *Marketing Info. Masters, Inc. v. Bd. of Trustees of Cal. State Univ. Sys.*, 552 F. Supp. 2d 1088 (S.D. Cal. 2008), and "all of the courts that have considered the question to date have found that Congress lacked a valid grant of constitutional authority to abrogate the State's sovereign rights under the Copyright Act." *Whipple v. Utah*, 2011 WL 4368568 at *20 (D. Utah Aug. 25, 2011).

Architectural Works

Copyright protection is extended to architectural works. Architectural Works Copyright Protection Act, 17 U.S.C. §§ 102(a) and 120.

Moral Rights

Section 106A is added to the Copyright Act establishing certain moral rights of attribution and integrity for certain statutorily defined works of visual art. Visual Artists Rights Act.

1991

Unpublished Works Fair Use

The fair use doctrine can apply to unauthorized use of unpublished works. *Wright v. Warner Books*, 953 F.2d 731 (2d Cir.).

Educational Photocopying

Articles copied for educational use are not necessarily fair use. *Basic Books, Inc. v. Kinko's Graphics Corp.*, 758 F. Supp. 1522 (S.D.N.Y.).

Sale of Software

The sale of software is the sale of a good within the meaning of the Uniform Commercial Code. *Advent Sys. Ltd. v. Unisys Corp.*, 925 F.2d 670 (3d Cir.); *Downriver Internists v. Harris Corp.*, 929 F.2d 1147 (6th Cir.).

Creativity Requirement

A work must have a minimal amount of creativity for copyright protection—mere "sweat of the brow" is not enough. *Feist Publ'ns v. Rural Tel. Serv.*, 499 U.S. 340.

Sampling

Copyright owners have exclusive rights to the "sampling" of their musical works. *Grand Upright Music, Ltd. v. Warner Bros. Records, Inc.*, 780 F. Supp. 182 (S.D.N.Y.).

1992

Copyright Renewal

The Copyright Act is amended to allow for the automatic renewal of copyright in works created before 1978, significantly reducing the number of older works entering the public domain due to the expiration of their first term. Works copyrighted between January 1, 1964, and December 31, 1977 are automatically renewed even if registration is not made.

Uncopyrightable Elements of Works

"Substantial similarity" is required for copyright infringement to occur. The Abstraction-Filtration-Comparison test is established, which lays out the steps to follow when extricating copyrightable expression from uncopyrightable elements of the same work. *Computer Assocs. Int. Inc. v. Altai Inc.*, 982 F.2d 693 (2d Cir.).

Modifying Software

Consumers may modify purchased computer games for their own uses. *Lewis Galoob Toys, Inc. v. Nintendo of Am., Inc.*, 780 F. Supp. 1283 (9th Cir.).

Fair Use and Parody

For an otherwise infringing work to qualify as a parody under the fair use doctrine, the copied work must be, at least in part, an object of the parody. *Rogers v. Koons*, 960 F.2d 301 (2d Cir.).

Digital Audio Recording

The Digital Audio Home Recording Act grants royalties on the sale of digital audio recording devices and media and requires copy management systems. Royalties are collected, invested, and distributed among the owners of sound recording and musical compositions, certain performing artists and / or their representatives. The change further clarifies the legality of home taping of sound recordings for private noncommercial use.

1993

RAM Copies of Software

RAM "working memory" copies of computer programs are subject to copyright laws. *MAI Sys. Corp. v. Peak Computer, Inc.*, 991 F.2d 511 (9th Cir.).

NAFTA

The North American Free Trade Agreement Implementation Act (NAFTA) grants copyright protection to certain motion pictures and related works first fixed in Canada or Mexico between January 1, 1978 and March 1, 1989 that had fallen into the public domain; and makes permanent that the rental of sound recordings is a distribution subject to copyright laws.

Copyright Royalty Panels

The Copyright Royalty Tribunal is eliminated and replaced by ad hoc Copyright Arbitration Royalty Panels administered by the Librarian of Congress and the Copyright Office. Copyright Royalty Tribunal Reform Act.

1994

Graphical User Interfaces

Certain components of computer programs' graphical user interfaces (GUI) are not copyrightable. Given the limited number of ways that basic ideas in a GUI can be expressed differently, only "thin" protection against virtually identical copying was appropriate. *Apple Computer, Inc. v. Microsoft Corp.*, 35 F.3d 1435 (9th Cir.).

Parody and Fair Use

Commercial parody can be fair use. *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569.

Moral Rights

The Supreme Court interprets moral rights provisions of the Visual Artists Rights Act. *Carter v. Helmsley-Spear Inc.*, 861 F. Supp. 303 (S.D.N.Y.) (overturned for other reasons: 71 F.3d 77 (2d Cir. 1995), cert. denied 116 S. Ct. 1824 (1996)).

Criminal Copyright Loophole

There is no liability for criminal charges of fraud or copyright infringement where no profit motive is involved. *United States v. LaMacchia*, 871 F. Supp. 535 (D. Mass) (reversed by statute in 1997).

Copyright Restoration of Foreign Works

United States Copyright protection is restored to certain foreign works. Uruguay Round Agreements Act.

Live Performances

An anti-bootlegging statute is enacted protecting against unauthorized recording of live musical performances and for trafficking in such unauthorized recordings. 17 U.S.C. § 1101.

1995

Software Interfaces

Software interfaces per se are "methods of operation" and thus not protected by copyright. *Lotus v. Borland*, 49 F.3d 807 (1st Cir.).

Internet Provider Liability

The Supreme Court holds that an operator of a computer bulletin board service is not liable for copyright infringement for the infringing postings by its subscribers. *Religious Tech. Center v. Netcom*, 907 F. Supp. 1361 (N.D. Cal.).

Work for Hire Written Agreement

The Supreme Court holds that the actual writing memorializing the parties' agreement that a work is a "work made for hire" need not be executed before the creation of the work as long as the subsequently executed written agreement embodies the parties' original understanding. *Playboy v. Dumas*, 53 F.3rd 549 (2d. Cir.).

1996

International Digital Fair Use

The World Intellectual Property Organization adopts a statement ensuring the "application of fair use in the digital environment," emphasizing "the need to maintain a balance between the rights of authors and the larger public interest, particularly education, research and access to information."

Contributory Liability

The Supreme Court holds that providing the site and facilities for known infringing activity is sufficient to establish contributory liability. *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259 (9th Cir.).

1997

Copyright Damages

The Copyright Act is amended to expand the reach of criminal prosecution for copyright, including up to five years in prison and up to $250,000 in fines, whether or not there is monetary profit or commercial benefit from the infringement. No Electronic Theft Act.

1998

Choice of Law

The laws of the jurisdiction with the closest association to the putative owner apply to determine copyright ownership. *Itar-Tass Russian News Agency v. Russian Kurier, Inc.*, 153 F.3d 82 (2d Cir.).

Architectural Works

A storefront inside enclosed mall is not entitled to copyright protection as "architectural work." *Yankee Candle Co. v. New England Candle Co.*, 14 F. Supp. 2d 154 (D. Mass.).

Term Extension

The Copyright Act is amended to extend protection from life of the author plus 50 years to life of the author plus 70 years. The "Sonny Bono" Copyright Term Extension Act.

DMCA Safe Harbors and Anti-Circumvention

The Digital Millennium Copyright Act (DMCA) is enacted. The Act establishes procedures granting "safe harbor" to compliant Internet service providers. It further provides for the implementation of the WIPO Copyright Treaty and the WIPO Performances and Phonograms Treaty. It also creates a regime protecting against "anti-circumvention" measures; an exemption permitting a temporary reproduction of a computer program made by activating a computer in the course of maintenance or repair; clarifies the policy role of the Copyright Office; creates a form of protection for vessel hulls; and establishes periodic review of the law to accommodate advances in technology.

1999

Statutory Damages

The Copyright Act is amended to increase the minimum statutory damages for infringements from $500 to $750 and the maximum from $20,000 to $30,000, and maximum for willful infringement increased from $100,000 to $150,000 per infringed work. Digital Theft Deterrence and Copyright Damages Improvement Act.

Photographing Public Domain Works

The Supreme Court holds that "[s]lavish copying" is inherently uncreative and cannot confer copyright notwithstanding the degree of skill, experience and effort required. *Bridgeman Art Library Ltd. v. Corel Corp.*, 36 F. Supp. 2d 191 (S.D.N.Y.).

Public Performance

Performing a public speech does not constitute public-domain publication under the 1909 Copyright Act. *Estate of Martin Luther King, Jr., Inc. v. CBS, Inc.*, 194 F.3d 1211 (11th Cir.).

2000

DMCA Anti-Circumvention Exceptions

Under new regulations promulgated pursuant to the DMCA periodic review, certain classes of works are exempt from the ban on circumvention, including compilations of lists of Web sites blocked by filtering software applications, and literary works whose access control mechanisms have failed to permit access because of malfunction, damage, or obsolescence.

Remote Librarying

The copying and distribution of copyrighted music without permission of the copyright holders is not protected by the fair use doctrine simply because the downloader already owns a copy of the music. *UMG v. MP3.com*, 92 F. Supp. 2d 349 (S.D.N.Y.).

2001

File Sharing

Unauthorized "file sharing" is copyright infringement, and benefiting from such infringement while failing to take steps to prevent it constitutes contributory infringement. *A & M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004 (9th Cir.).

Parody and Fair Use

A parody that comments on the underlying work rather than appropriating to "avoid the drudgery in working up something fresh" is unlikely to serve as a market substitute for the parodied work. *Suntrust v. Houghton Mifflin*, 252 F. 3d 1165 (11th Cir.).

Anti-Circumvention

The anti-circumvention provisions of the Digital Millennium Copyright Act are not beyond the scope of Congress' powers. *Universal City Studios, Inc. v. Corley*, 273 F.3d 429 (2d Cir.).

Works Adopted by Government

Once a private organization's model codes have been adopted by a legislative body as law, a party cannot assert copyright protection for them. *Veeck v. S. Bldg. Code Cong. Int'l*, 241 F.3d 398 (5th Cir.).

Collective Work Privilege

The Supreme Court holds that the 17 U.S.C. § 201(c) privilege does not give publishers the right to license the reproduction of individual contributions to collective works in electronic databases without consent from the contributors. *N.Y. Times Co. v. Tasini*, 533 U.S. 483.

2002

Distance Education

The Copyright Act is amended to provide for the use of copyrighted works by certain nonprofit educational institutions for the purpose of distance education. Technology, Education, and Copyright Harmonization Act.

2003

Indexing as Fair Use

"Thumbnail" reproductions of images and inline linking for the purpose of indexing the Internet can be fair use. *Kelly v. Arriba Soft Corp.*, 336 F.3d 811 (9th Cir.).

Source Credit

The Lanham Act does not prevent unaccredited copying of a work no longer entitled to copyright protection. *Dastar Corp. v. 20th Century Fox Film Corp.*, 539 U.S. 23.

Removal of Works from the Public Domain

Congress did not exceed its powers by retroactively extending the duration of copyright for works still under copyright at the time of the extension, as such extension remains limited. *Eldred v. Ashcroft*, 537 U.S. 186.

2004

Copyright Royalty Board

The Copyright Arbitration Royalty Panel system is phased out and replaced by the Copyright Royalty Board. Copyright Royalty and Distribution Reform Act.

Internet Service Provider Safe Harbor

An Internet service provider's cursory review of photographs uploaded by users to its site does not remove it from the safe harbor protections of the DMCA in the absence of indicia of copyright infringement in the images screened. *CoStar Group, Inc. v. LoopNet, Inc.*, 373 F.3d 544 (4th Cir.).

Anti-Circumvention and Fair Use

The Federal Circuit finds that a DMCA anti-circumvention cause of action only applies if the circumvention facilitates copyright infringement, and that Skylink's use of Chamberlain's copyrighted works in creating its competing garage door opener is a non-infringing fair use. *Chamberlain Group, Inc. v. Skylink Techs., Inc.*, 381 F.3d 1178 (Fed. Cir.).

2005

Preregistration

The Copyright Act is amended to allow for the preregistration of certain works being prepared for commercial distribution. Artists' Rights and Theft Preservation Act.

De Minimis Sampling

There is no *de minimis* exception for the sampling of a sound recording (as opposed to the sampling of a song composition). *Bridgeport Music, Inc. v. Dimension Films*, 410 F.3d 792 (6th Cir.).

Inducement Liability

Distributors of peer-to-peer file-sharing software can be liable for copyright infringement under the inducement theory of secondary liability where there are "affirmative steps taken to foster infringement." *MGM Studios, Inc. v. Grokster, Ltd.*, 545 U.S. 913.

Pre-Release Works

Criminal penalties are established for the distribution of "pre-release" and pirated works. Family Entertainment and Copyright Act.

2006

Public Records

The Copyright Office opens a new Public Records Reading Room to the public.

Fair Use Commentary and Criticism

Each reproduced copyrighted image in a work need not be accompanied by comment or criticism related to that specific image to constitute a fair use. *Bill Graham Archives v. Dorling Kindersley Ltd.*, 448 F.3d 605 (2d Cir.).

Re-Editing Films

The rental and sale of versions of copyrighted films that had been edited to remove sex, profanity, and violence is not protected by fair use or the first sale doctrine. *Clean-Flicks of Colo. v. Soderbergh*, 433 F. Supp. 2d 1236 (D. Colo.).

Appropriation Artist Wins Fair Use Case

An artist's unauthorized appropriation of a copyrighted photograph in a collage constitutes fair use. *Blanch v. Koons*, 467 F.3d 244 (2d Cir.). Artist Jeff Koons had previously lost appropriation art cases in *Rogers v. Koons*, 960 F.2d 301 (2d Cir. 1991) and *United Feature Syndicates v. Koons*, 817 F. Supp. 370 (S.D.N.Y. 1993).

2007

DMCA Procedures

The DMCA places the burden of policing copyright infringement on copyright owners, not online service providers. Additionally, Section 230 of the Communications Decency Act immunizes Internet service providers from state law intellectual property claims, including right of publicity claims, but not federal intellectual property claims. *Perfect 10 v. CCBill LLC*, 488 F.3d 1102 (9th Cir.).

Copyright Term

The renewal and extension provisions of the Copyright Renewal Act (CRA) and Copyright Term Extension Act (CTEA) do not trigger First Amendment scrutiny, and the current copyright term of 70 years beyond the life of the author does not violate the constitutional requirement that copyrights endure only for "limited times." *Kahle v. Gonzales*, 487 F.3d 697 (9th Cir.) (cert denied).

Thumbnails Fair Use

Thumbnails for use in Web searches constitute fair use as an index of the Internet. Use of framed full-sized inline images do not infringe. Market harms need to be more than theoretical in fair use analysis. *Perfect 10 v. Amazon.com, Inc.*, 508 F.3d 1146 (9th Cir.).

2008

Electronic Copyright Office

The Copyright Office website allows for electronic registration.

Fair Use and Internet Takedown Requests

Before issuing a DMCA takedown notice, rights holders must consider fair use, or be held liable for misrepresentation. This ruling effectively mandates a human element in each DMCA takedown, rather than allowing it to be done by computer algorithm or software alone. *Lenz v. Universal Music Corp.*, 572 F. Supp. 2d 1150 (N.D. Cal.).

Buffer Copies and Remote DVRs

Fleeting embodiments of copyrighted programs in cable company's buffer feed are not "fixed," as required to qualify as a "copy" under the Copyright Act. The remote digital video recorder copies are created at the direction of the cable company's customers, and thus "made" by them and not the cable company, therefore a cable company is not directly liable under the Copyright Act. The playback transmissions of copies to the customers are not performances "to the public," and therefore do not infringe any exclusive right of performance under the Copyright Act. *Cartoon Network LP, LLLP v. CSC Holdings, Inc.*, 536 F.3d 121 (2d Cir.).

2009

Derivative Works

The Supreme Court holds that the originality requirement for a derivative work is not more demanding than the originality requirement for any other work. So long as a derivative work, authorized by the owner of the underlying original work, includes some non-trivial distinguishable variation from the original work, it will be entitled to separate copyright protection. *Shrock v. Learning Curve Int'l, Inc.*, 586 F.3d. 513 (7th Cir.)

Google Book Project in France

The Paris Civil Court ruled against Google in late 2009, ordering it to remove the works of La Martinière (Éditions du Seuil) from its database. The court found that "Google violated author copyright laws by fully reproducing and making accessible on the site" books owned by Seuil without its permission. Pending an appeal, the parties came to an agreement in 2011, allowing certain of the works to remain in Google's database. *Éditions du Seuil v. Google, Inc.*, Reg. No.: 09/00540 (D. Ct. Paris).

DMCA Safe Harbor

A video-sharing website complied with DMCA requirements for safe harbor. *UMG Recordings, Inc. v. Veoh Networks Inc.*, 665 F. Supp. 2d 1099 (C.D. Cal. 2009), *aff'd sub nom. UMG Recordings, Inc. v. Shelter Capital Partners LLC*, 667 F.3d 1022 (9th Cir. 2011).

2010

Infringement and Breach of Contract

The 9th Circuit analyzed the overlaps and distinctions between copyright infringement and breach of contract in the context of software that automatically plays video games for the purpose of achieving in-game rewards. *MDY Indus. v. Blizzard Entm't*, 629 F. 3d 928 (9th Cir.).

Outsourcing Online Infringement Enforcement

Righthaven LLC, a copyright holding company founded in 2010, made partnerships with newspapers in an effort to find that their content had been copied to online sites without authorization, to bring copyright infringements suits against the site's owners. In November 2011, the company's assets were subject to confiscation by the U.S. Marshals Service, due to debts accrued from legal fees owed to a prevailing defendant. In 2012, the domain name righthaven.com was sold at auction to help satisfy the debts.

2011

Inducement Liability

Applying *Grokster* and identifying the inducement theory as a discrete form of secondary liability, the court holds LimeWire liable for copyright infringement based on overwhelming evidence of its purposeful conduct to encourage infringement. *Arista Records LLC v. Lime Group LLC*, 784 F. Supp. 2d 398 (S.D.N.Y.).

Jurisdiction

In copyright infringement cases involving the uploading of copyrighted printed literary works onto the Internet, personal jurisdiction is determined based on the situs of the injury, which is the residence or location of the principal place of business of the copyright holder, or the location of the servers generating the infringement. *Penguin Grp. (USA) Inc. v. AM. Buddah*, 946 N.E.2d 159 (N.Y.).

2012

Restoration of Copyright

The URAA restoration of copyrights in certain works previously in the public domain does not violate the Copyright Clause or the First Amendment. *Golan v. Holder*, 132 S. Ct. 873.

DMCA Anti-Circumvention Exemptions

Under new regulations promulgated under periodic review pursuant to the DMCA, certain anti-circumvention measures are exempted, by regulation of the Copyright Office, including certain assistive technologies, "jailbreaking" or "unlocking" older smart phones, and "cracking" DVDs for certain transformative fair uses. The new regulations do not provide for jailbreaking and unlocking of tablets, nor do they provide for moving audiovisual works from DVD to tablet.

Knowledge Requirement for DMCA Safe Harbor

The Second Circuit finds that Viacom presented evidence of specific knowledge of infringement, which could take YouTube out of the DMCA safe harbor, meriting a trial. *Viacom Inc. v. YouTube*, 676 F.3d 19 (2d Cir.).

2013 and Beyond

The next few years promise to be no less challenging to copyright policymakers, lawyers, owners and users. Below is a short list of the interesting issues that will likely receive attention by courts, legislators, academics and copyright creators and users.

- The gray market importation of goods containing copyrightable content in *John Wiley & Sons, Inc. v. Kirtsaeng*, 654 F.3d 210 (2d Cir. 2011), *cert granted* 132 S. Ct. 1905 (Apr. 16, 2012),
- 3-D Printing,
- The first cases of termination of transfer pursuant to 17 U.S.C. § 203,
- Augmented Reality,
- Google Glasses and ubiquitous recording devices,
- Orphaned works,
- Copyright protection for fashion design,
- Authors Guild / Google Book Project Settlement,
- The expected expiration of copyright protection for the earliest appearances of many iconic fictional characters including Mickey Mouse and Superman,
- Remote broadcast DVR services. *ABC v. Aereo*, 12-1540 S.D.N.Y., and
- More challenges to awards of injunctive relief in copyright infringement cases.

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The Childlike Novelty of Video Games, and Its Serious Progeny of Legal Challenges for Adults

By Jason Aylesworth and Megan Maxwell

Twenty-five years ago, the concept of digital media law was fairly non-existent. Video games were present in some households, but most exposure to gaming came from arcades. Moreover, Web 2.0 had not taken hold and revolutionalized Internet use. However, in the past 25 years, advances in technology and an increase in consumer consumption have put digital media at the forefront of entertainment legal issues.

A significant part of this influx of digital media is due to gaming. During the period from 2005 to 2009, the growth rate for the game industry was 10.6%, while the growth rate for the U.S. economy as a whole was 1.4%.[1] In 2011, consumers spent $24.75 billion on video games, hardware, and accessories.[2] This popularity is partly due to the increased access to games. The arcade no longer has a foothold on gaming; 33% of gamers play on their smartphones, and the average U.S. household has at least one gaming device (console, PC, or smartphone).[3] In addition, gaming is no longer only for kids; the average gamer is 30 years old and has been playing games for 12 years.[4] Moreover, it can no longer be thought that gaming is only for boys—women account for 47% of gamers, and women over the age of 18 represent 30% of gamers (compared to 18% for boys age 17 and younger).[5] Due to this rising popularity of gaming and the industry's importance in the digital media field, this retrospective will focus on the legal issues facing the game industry, specifically First Amendment and copyright issues.

I. First Amendment—Are video games a protected form of speech?

Like other forms of entertainment in their beginning stages, video games were not initially given the same regard and respect as other forms of media. Specifically, games were not given First Amendment protections. In 1983, the New York Supreme Court followed guidance from prior cases and found that video games were not a form of speech protected by the First Amendment because video games did not impart information to the user or communicate ideas.[6] Therefore, the court used a lower standard when determining the validity of a regulation regarding licenses for commercial locations to have video games on the premises.[7]

In 2011, however, the Supreme Court definitively granted First Amendment protection to video games. In *Brown v. Entertainment Merchants Association*,[8] the Court evaluated the constitutionality of a California law that restricted the sale and rental of violent video games to minors. During its analysis, the Court stated, "Like the protected books, plays, and movies that preceded them, video games communicate ideas—and even social messages—through many familiar literary devices (such as characters, dialogue, plot, and music) and through features distinctive to the medium (such as the player's interaction with the virtual world)."[9] In addition, the Court stressed that the government cannot use a savings clause (e.g., clause exempting works of serious religious, political, scientific, educational, journalistic, historical, or artistic value) in legislation restricting non-obscene speech; the obscenity exception only applies to "sexual conduct."[10]

Moreover, the Court specifically noted the significant First Amendment protection given to minors; government cannot regulate speech directed to children merely because it thinks the speech is inappropriate.[11] The Court briefly discussed the lack of a long-standing history of restricting a child's access to depictions of violence—other art forms targeted to children (such as *Grimm's Fairy Tales*) contain similar depictions of violence.[12] Arguing that all forms of art have varying degrees of interactivity, the Court also rejected the argument that video games should be treated differently because they are interactive.[13] Noting the flawed methodologies and lack of direct evidence in the studies submitted by California, the Court also rejected the argument that there is a connection between video games and violent behavior.[14] Even if the studies were accurate, the Court believed that there was nothing to distinguish the effect of video games from the effects of other forms of media containing violence, including media that is directed and intended for children (e.g., Bugs Bunny cartoons).[15]

Significantly, the Court also discussed (and praised) the voluntary rating system used by the Entertainment Software Rating Board (ESRB).[16] Citing a report from the Federal Trade Commission (FTC), the Court noted that the video game industry was more successful at restricting access of inappropriate material to children than the movie and music industries.[17] Considering the above, the Court ultimately found California's law to be unconstitutional.[18]

Brown notwithstanding, due to the number of mass shootings in 2012 (including the allegation that Newtown shooter Adam Lanza was a video game player), there has been a recent call for further study on the connection between video games and violent behavior. On December 19, 2012, Democratic Senator Jay Rockefeller introduced legislation to request the National Academy of Sciences to conduct a study on the impact of violent video games on children and request that the FTC and the Federal Communications Commission (FCC) do more work in this area.[19] Rockefeller specifically noted that the courts, unlike parents, pediatricians, and psychologists, do not properly understand the issue.[20] In addition, the Senator distinguished this new study from prior studies because it would consider whether the effect of video games is different from the effect of other media and would look at possible long-lasting effects.[21] He believes that the FCC and FTC need to become more involved because of advances in technology that have increased the accessibility of games. ESA responded to this new proposed legislation by requesting that any future study take into account the multiple other factors that contribute to violent behavior and include the research that shows no connection between video games and violent behavior.[22] Other factors include the level of parental engagement with their children's gameplay. Many children have questions about what they see in video games and could benefit with adult interaction. Moreover, children can also educate adults about this popular form of entertainment, establishing a harmonious gaming relationship together.

Gaming has many facets, and it should be noted that the game industry does not generally consist of violence. In 2011, 73% of all games sold were rated "E" for Everyone, "T" for Teen, and "E10+" for Everyone 10 and older.[23] Due to Senator Rockefeller's proposed legislation, the future of gaming content is unclear, but the industry has survived these studies and allegations before and *Brown* still provides guidance on how courts will handle any future content restrictions placed on the industry or its retailers.

II. Copyright—To what extent is there protection within video games?

Besides testing the bounds of First Amendment protection, video game developers, manufacturers and distributors found themselves in the courtroom concerning legal issues on copyright. New technology was developed which enabled gamers to play their video games in a different manner, including cheating. Codemasters, a British video game developer, created a device in 1990, which empowered gamers to adjust certain default settings on a video game cartridge so players could quickly finish a game by avoiding the digital obstacles created by the game programmers. Consumers were able to increase the number of lives of the game character, as well as equip such character with all powers and equipment to overcome the challenging difficulty of completing all of the levels of a game in a short period of time. This revolutionary device was known as Game Genie, which was manufactured and distributed in the United States by Galoob Toys. While one of the leaders of home consoles during this period, Sega, welcomed the technology, Nintendo felt that such a device interfered with its copyrighted game cartridges.

In *Lewis Galoob Toys, Inc. v. Nintendo of America, Inc.*,[24] the United States Court of Appeals in the Ninth Circuit had to determine whether the Game Genie infringed on Nintendo's copyright in its video games. Nintendo's argument was that the technology created unauthorized derivative works in its copyrighted videogames, violating the exclusive right to prepare and authorize authors to prepare derivative works.[25] The Court of Appeals disagreed, holding that the Game Genie "merely enhances the audiovisual displays (or underlying data bytes) that originate in Nintendo game cartridges"[26] and "cannot duplicate or recast, a Nintendo game's output,"[27] therefore concluding that the Game Genie did not create infringing derivative works.[28] This decision allowed other companies to manufacture and market devices to satisfy gamers' demands of completing lengthy journeys with a bundle of superpowers in an expedited period of time, perhaps to allow the consumers' need to purchase and play another video game. While the Court of Appeals held that the audiovisual displays in *Galoob* were not infringing derivative works, they would later examine a dispute finding that another type of audiovisual display was in fact an infringing derivative work.

Six years after *Galoob*, the Court of Appeals held in *Micro Star v. FormGen, Inc.*[29] that game levels created by players were derivative works.[30] FormGen, Inc. was the copyright owner of the Duke Nukem 3D, a first-person shooter game popular in the 1990s.[31] The game included a feature allowing players to create custom levels within the Duke Nukem universe, and a license to post such levels on the Internet for others to download for personal use.[32] Micro Star downloaded 300 user-created levels onto a CD, and sold it commercially as Nuke It.[33] The question before the Court of Appeals was whether the audiovisual displays generated when FormGen's game ran in conjunction with Micro Star's CD MAP files were considered derivative works that infringed on FormGen's exclusive right to create derivative works.[34] After navigating through the technical minutiae of what makes up the user-created audiovisual display fixed in the MAP file, the Court of Appeals distinguished *Micro Star* from *Galoob*.[35] The Court of Appeals noted that in *Galoob* "the audiovisual display was defined by the original game cartridge, not by the Game Genie,"[36] while the audiovisual displays in the present case were defined by the MAP files on Micro Star's CD.[37] Specifically, the "MAP files describe the audiovisual display that is to be generated when the player chooses to play Duke Nukem 3D using the Micro Star levels."[38] Besides the victory for the creators of Duke Nukem 3D, this case brought to light the greedy nature of noncreative parties attempting to ride on the coattails of imaginative people. Not only did Micro Star infringe FormGen's copyrighted works, but it essentially stole from the players who built new levels within the Duke Nukem universe. Notwithstanding this lazy effort to commercially exploit an underlying property, it does not compare to the blatant copying done by another selfish company trying to capitalize on another gaming pioneer's innovation.

In *Tetris Holding, LLC v. Xio Interactive, Inc.*,[39] the United States District Court of New Jersey evaluated whether the defendant's video game *Mino* infringed on the plaintiff's *Tetris*.[40] Tetris's claim was that *Mimo* infringed on its copyrightable elements including, but not limited to, "playing pieces ('Tetriminos') made up of four equally-sized squares joined at their sides; bright, distinct colors used for each of the Tetrimino pieces; and a tall, rectangular playfield (or matrix), 10 blocks wide and 20 blocks tall.[41] Xio's position was that these elements were not original expression, but rather the rules and function of an idea which was not protected by copyright.[42] The District Court vehemently disagreed with Xio's ill-advised stance, confirming that the elements of the video game *Tetris* were expressions of Tetris Holding's "specific and deliberate design choices,[43]" and "to allow Xio to profit off that expression…by blatant copying, without offering any originality or ingenuity of its own, defies the very purpose of copyright law."[44] This case does not mean that companies cannot create video games with the same rules as *Tetris*. For example, Nintendo's *Dr. Mario* used the unprotected rules of *Tetris*, but not the copyrighted elements of expression. Rather than "using bricks to form complete rows," the user "aligns pills and viruses of different colors to form patterns and eliminate the viruses as part of the pattern based on the color of the objects."[45] *Mimo*, on the other hand, copied the colors and dimensions of the Tetriminos, and mimicked the 10 x 20 rectangular playfield.[46] The ruling of this case not only discourages individuals and companies from stealing digitally created works, but it also reaffirms the purpose of copyright law protection: to stimulate cultural and economic development.

The gaming industry has greatly advanced in the past 25 years. This escalation of the industry's importance is reflected in its role in legal issues facing the entertainment, arts, and sports field, and this importance will only increase as the industry experiences future growth. As the industry grows, however, it will continue to face the same prominent legal issues that it has faced for the past 25 years—First Amendment and copyright issues.

As games continue to be blamed for real-life tragedies, the concern over their having a bad influence on children will persist. It is debatable whether there is a correlation between a game's graphic depictions of violence and a person having a false sense of morals and reality. But after *Brown*, it would be difficult for government to pass legislation restricting the content of games and the ability of the game industry to sell its product. Rather than looking to the industry to create safety measures beyond ESRB ratings and procedures, it may be more beneficial for future studies to consider external factors influencing levels of violent (e.g., parental involvement). In order to further advance gaming, it is imperative for game developers to let their creative juices flow without unreasonable censorship, and hopefully future First Amendment cases will continue to protect this necessity.

Copyright protection is also a necessity for these innovative creators. In order to reap the financial benefits of a successful video game product, copyright law must keep up with the speed of technology that makes infringement much easier. Furthermore, designers need to be confident that their rights of ownership will remain strong when their games inspire the creation of derivative works which need their consent. As with the First Amendment, the recent cases in this area have protected the creators. This protection is important as technological advances continue in the evolution of the fun (yet legally complex) video game industry.

Endnotes

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4. *Id.*
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6. Tommy and Tina, Inc. v. Dept. of Consumer Affairs of City of N.Y., 117 Misc. 2d 415, 424 (N.Y. Sup. Ct. 1983) (citing America's Best Family Showplace Corp. v. City of New York, Dept. of Bldgs, 536 F. Supp 170 (E.D.N.Y. 1982) and City of New York v. Rambling Ram Realty Corp., No. 43556/81 (S. Ct. N.Y. Co. 1982).
7. *Id.* at 424.
8. Brown v. Entertainment Merchants Assoc., 131 S.Ct. 2729 (2011).
9. *Id.*
10. *Id.* at 2734.
11. *Id.* at 2736.
12. *Id.* at 2736-37.
13. *Id.* at 2738.
14. Brown v. Entertainment Merchants Assoc., 131 S.Ct. 2729, 2739 (2011).
15. *Id.*
16. It should be noted that New York passed N.Y. Gen. Bus. Law §§ 611-12 (McKinney 2008) in 2008 which requires that video game packaging displays the ESRB rating and new console units have parental controls.
17. *Brown*, 131 S.Ct. at 2741.
18. *Id.* at 2742.
19. Ted Johnson, *Pols Call for Study on Violent Videogames*, Variety (Dec. 19, 2012), http://www.variety.com/article/VR1118063833/ (last visited December 26, 2012). The study would also look at violent programming, but it is not clear how violent programming would be defined. *Id.*
20. *Id.*
21. *Id.*
22. *Id.*
23. ESA, *supra* note 2.
24. Lewis Galoob Toys, Inc. v. Nintendo of America, Inc., 964 F.2d 965 (9th Cir. 1992).
25. *Id.* at 967.
26. *Id.* at 968.
27. *Id.* at 969.
28. *Id.*

29. Micro Star v. FormGen, Inc., 154 F.3d 1007 (9th Cir. 1998).
30. *Id.*
31. *Id.*
32. *Id.*
33. *Id.*
34. *Id.* at 1110.
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36. *Id.*
37. *Id.* at 1111-12.
38. *Id.* at 1112.
39. Tetris Holding, LLC v. Xio Interactive, Inc., 863 F. Supp. 2d 394 (D.N.J. 2012).
40. *Id.*
41. *Id.* at 397-98.
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45. Tetris Holding, LLC v. Xio Interactive, Inc., 863 F. Supp. 2d 394, 412 (D.N.J. 2012).
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25th Anniversary

ENTERTAINMENT, ARTS, AND SPORTS LAW SECTION DIVERSITY COMMITTEE

By Anne Atkinson and Cheryl Davis, Co-chairs, EASL's Diversity Committee

EASL's diversity efforts were initially shepherded by the Membership and Diversity Committee. In April 2011, in order to further focus on diversity, a separate Diversity Committee was established. Under any title, EASL has supported diversity efforts and actively participated in the NYSBA Diversity Reception since its inception in 2003. Thus, we were well situated to participate in NYSBA President Vincent Doyle's Diversity Challenge announced in 2011, where EASL was one of the First Place Winners.

The current members of the committee are Anne S. Atkinson and Cheryl L. Davis (co-chairs), Avita Ali, Rakhi Bahadkar, Rich Boyd, Nyasha Foy, Elissa D. Hecker, Asia D. Sanders, Stephanie Spangler, Rob Thony, Jessica Thaler, Vivian Tseng and Rosemarie Tully. Over the past year, the Committee has engaged in a number of activities.

Our Committee has been very active, including by holding joint CLE events with minority bar associations, often followed by networking events; making substantial progress in establishing a mentoring program for diverse 2L law students, new lawyers, lawyers in transition and/or those who wish to shift areas of practice to entertainment, arts or sports law. In addition to its ongoing programs, over the course of the upcoming year, the Diversity Committee intends to encourage diversity at a broader level by engaging and encouraging the consideration of diversity when organizing CLE panels, hosting purely social events, to create an open environment where attorneys interested in diversity can comfortably interact.

Fashion Forward: The Story of Fashion Law

By Kristen Soehngen Karp and David Faux

Fashion law is a newly defined area, spanning from intellectual property to employment law, from international trade to sustainability. The Fashion Law Committee brings these issues to light through a quarterly newsletter and successful CLE events. Though our Committee is young, fashion law enjoys a long history of legal wrangling in case law, regulation, and legislative efforts.

As American textile production developed in the late eighteenth and early nineteenth centuries, so did design piracy in the fashion industry. Yet intellectual property laws lacked adequate protection for fashion design, as exemplified in *Cheney Bros. v. Doris Silk Corp*. Here, the defendant blatantly copied the plaintiff's most popular design to his own benefit, confessing as much; even the judge stated that the plaintiffs had suffered a grievous wrong and deserved some remedy at law. However, no practicable remedy at law existed. The court suggested the possibility of an amendment to the copyright law, but to no effect.[1]

Taking matters into their own hands a group of clothing manufacturers organized as the Fashion Originators' Guild of America (the Guild).[2] The Guild maintained a registration system of its own members' original designs and enforced exclusivity agreements with retailers through arbitration, boycotts and fines.[3] Within four years, the Guild controlled over 60% of the moderate to high-end women's fashion market, but the success was short-lived.[4] On its way to a monopoly, the Guild was stopped by the Supreme Court for unfair trade practices.[5] Fashion designers have since sought protection under patent, trademark and copyright where possible, but have not yet enjoyed such comprehensive coverage as seen in other industries.

Patents

Patent law plays the smallest role in the protection of fashion. Through utility patents, closures like zippers or body-shapers like Spanx have garnered protection. However, most fashion designs do not satisfy the high standards of a utility patent.…"Fasteners like Velcro or zippers, high performance textiles like Lycra or Kevlar, protective garments like hazmat gear or spacesuits, and even more whimsical items of apparel have all been the subject of utility patents."[6] However, most fashion designs do not satisfy the high standards of a utility patent.[7] A design patent protects the non-functional, decorative elements and configurations of an article. In other words, even though the product is functional, the design itself is not a necessary element of its use.[8]

On the one hand, design patents seek to advance the development of the "decorative arts," therefore encompassing the artistic nature of fashion design.[9] For example, design patents have been extended to elements of an athletic shoe or a watch face. On the other hand, the application process for design patents can be tricky, often requiring more time to process than many trends will last. With the potential to last for 14 years, though, such ornamentation can become part of the designer's long-term branding efforts. Hence, this option for protection applies to such elements as ornamental clasps or, as in the recent *Lululemon v. Calvin Klein* dispute, the waistband of high-end yoga pants.[10] Such ornamental elements often become repeated and familiar features to a designer's line without limiting the expressive variety from one season to the next.

Trademark and Trade Dress

Trademark and trade dress are extremely important to fashion, with a mark acting as a calling card for the quality and style of a brand. Further, a trademark can be renewed perpetually, giving an advantage over copyright and design patents. To be eligible for protection, a mark must be inherently distinctive or have obtained secondary meaning.[11] The latter is quite common to the industry, but not ideal, considering that time is necessary to build the necessary reputation among consumers. Conventional wisdom among IP attorneys, of course, emphasizes the preference for marks that are inherently strong (i.e., suggestive, arbitrary or fanciful) like Nike's swoosh.

Conventional wisdom among designers, however, is to use their personal names to define their respective brands, such as Ralph Lauren, Donna Karen, and Michael Kors. Names, however, are not inherently distinctive and must attain secondary meaning.[12]

The leading case for secondary meaning in fashion comes from the Supreme Court's specific discussion of trade dress—another potential source of protections for designers' intellectual property. In *Wal-Mart Stores, Inc. v. Samara Bros., Inc.*, a children's clothing designer and manufacturer brought a trade dress infringement suit against a retailer who sold knockoffs of its designs.[13] The Court found that if a product design has developed secondary meaning in the minds of consumers as an identifier of the brand, that design can be protected.[14]

The most recent case to involve secondary meaning and to shake up the fashion industry was *Christian Louboutin v. Yves Saint Laurent* (YSL). Louboutin challenged YSL for allegedly infringing its trademarked red soles when YSL released a monochrome high heel with a red upper and red sole. In September 2012, the United States Court of Appeals for the Second Circuit upheld Louboutin's trademark, but only when the upper shoe is a contrasting color from the red sole.[15]

Copyright

What limited protection fashion items have under copyright can be found largely with design patterns, also referred to as textile designs. For example, in *Peter Pan Fabrics, Inc. v. Martin Weiner Corp.*, a copyright was upheld for the reproduction of an original ornamental design that was printed on cloth.[16] Today, it is common practice for established designers to register their original textile designs.

Other elements of fashion, like lace patterns, might receive protection through the copyright exception of separability, though the courts have been collectively mercurial. An item of apparel is a "useful article" under copyright law and therefore is ineligible for copyright protection. Yet some features of that design can be identified separately from the useful part of the item,[17] and thus qualify for protection, physically or conceptually separable from the apparel's silhouette.

Physical separability indicates that a design element of the work can be physically severed without ruining the item's functionality or the separated element's copyrightability.[18] Conceptual separability, though, is "[o]n a razor's edge of copyright law." For example, in *Kisselstein-Cord v. Accessories by Pearl, Inc.*, the Second Circuit tackled conceptual separability related to sculpted, jewel-encrusted belt buckles.[19] These buckles were no different from other belt buckles, in that they could hold up pants. The court saw beyond the buckles' typical function, however, and found that the aesthetic decorations which adorned the buckles were indeed conceptually separable from their underlying utility.[20] (The fact that the buckles were inducted into the permanent collection at the Metropolitan Museum of Art definitely weighed in favor of copyright protection as applied art.)[21]

Since then, conceptual separability has served as a useful tool in protecting the decorative elements of apparel and accessories, such as the lace designs of wedding gowns,[22] and puffy appliqué artwork on sweaters.[23] However, there are limits: commonplace designs which are in the public domain, like ordinary polka dots and gingham checks, are not copyrightable. Contrarily, "stripes, if complex enough, have been found to possess the modicum of creativity required for copyright protection."[24]

The Innovative Design Protection Act (IDPA) is a proposed amendment to the Copyright Act of 1976 to protect fashion design and the latest iteration in a long line of attempts at legislation to increase protection of fashion designs.[25] The bill brought together the Council of Fashion Designers of America (CFDA), the American Apparel and Footwear Association (AAFA), members of Congress, and academics to find a balance between the need to protect jobs and innovation in the fashion industry against the desire to keep clothing affordable and accessible.

The IDPA seeks to protect the overall appearance of original and unique women's, men's or children's clothing, in addition to many accessories.[26] Unlike other forms of copyright protection, no registration would be necessary, and protection would only last for a period of three years from the date of publication, a term which was strategically chosen due to the average life of fashion's trends. To initiate a lawsuit under the bill, written notice would have to be sent to the alleged infringer, which would then start a 21-day waiting period before the case would be officially commenced. Any damages would begin to accrue after this waiting period.

In an effort to limit frivolous litigation, the plaintiff would bear the burden of proof to establish that the design is protected under the IDPA and that the defendant had the opportunity to see the original design. Under this scheme, though, rather than having to prove infringement through a threshold of substantial similarity, the plaintiff will need to prove the infringing article to be "substantially identical" to the original. Those designs which are so similar in appearance to be likely mistaken for the plaintiff's design will fulfill the test. However, there is a home sewing exception: there would be no liability for producing a single copy of a design for personal, non-commercial use.

Conclusion

The IDPA is not law. Yet Congress's painfully slow pace clarifies all the more a need for lawyerly focus in this burgeoning area called Fashion Law. As the practice continues to grow, lawyers will likely carve niches similar to master or synchronization licensing within "Music Law." Additionally, while some lawyers focus on more detailed aspects of acknowledged areas within "fashion law," other practitioners might expand the existing subject matter to include closely related areas like jewelry, modeling, or cosmetics law. We never know what next season will bring, but the garment industry is here to stay, making our Committee a "permanent fashion."

Endnotes

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10. *See* Abby Rogers, *Fashion's Biggest Lawsuit Has Finally Ended in a Secret Settlement,* Business Insider (Nov. 21, 2012, 11:21 AM), http://www.businessinsider.com/lululemon-vs-calvin-klein-lawsuit-2012-11.
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15. Benjamin Weiser, *Shoe Designer Can Protect Its 'Pop' of Red, Court Says,* N.Y. Times (Sept. 5, 2012), *available at* http://www.nytimes.com/2012/09/06/nyregion/court-rules-louboutin-can-enforce-a-trademark-on-its-red-outsoles.html?_r=0.
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17. *See* The Copyright Act, 17 U.S.C. §101 (2010) (definition of "pictorial, graphic, and sculptural works").
18. Jovani Fashion, Ltd. v. Cinderella Divine, Inc., et al., 808 F. Supp. 2d 542, 549-50 (S.D.N.Y. 2011).
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20. *Id.* at 993.
21. *Id.* at 991.
22. Eve of Milady v. Impression Bridal, Inc., 957 F.Supp. 484, 489 (S.D.N.Y. 1997).
23. Knitwaves, Inc. v. Lollytogs Ltd., Inc. 71 F.3d 996, 1002 (2d Cir. 1995).
24. *Id.* at 1017, fn. 1.
25. Innovative Design Protection Act, S. 3523, 112th Cong. (2012).
26. *Id.* at §2(a)(10)(A-C) (stating, the term "apparel" means men's, women's, or children's clothing, including undergarments, outerwear, gloves, footwear, and headgear; handbags, purses, wallets, tote bags, belts, and eyeglass frames.).

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Significant Legal Developments in Visual Art: Looking Back, Looking Forward 25 Years

By Judith B. Prowda

Introduction

There have been a number of critical developments in legal issues affecting the art market over the past 25 years and even beyond. This article will address two pieces of legislation that have altered the landscape significantly for artists, art business professionals and collectors. Both laws have been subjected to close re-examination this past year. Their impact over the next quarter century remains to be seen.

I. Artist-Dealer Legislation

Last fall, Governor Andrew M. Cuomo signed into law a long-awaited amendment of New York Arts and Cultural Affairs Law (NYACAL), which affects the consignment of artwork to art merchants by artists, their heirs and personal representatives.[1] The NYACAL protects artist-consignors even in the absence of a formal written consignment agreement, which is most often the case, since traditionally most deals between artists and galleries are sealed with a handshake.

A. Origin of the Statute

In 1966, New York became the first state to enact an art consignment statute.[2] California followed in 1975, using New York's statute as a model.[3] Today, the majority of states in the U.S. as well as the District of Columbia have enacted similar legislation.[4] The statute applies only to artists who consign their works to dealers, not to collector-consignors in the secondary, that is, resale, market.

The purpose behind these laws is to protect artists from the misappropriation of consigned property or sales proceeds. In addition, the law shields artists from unscrupulous dealers who attempt to negate their fiduciary responsibilities to the artist by using contractual waivers and disguised purchase agreements that render the relationship one of debtor and creditor.[5] Since criminal intent is difficult to prove, most artists resort to civil proceedings.[6]

These laws impose upon dealers the highest level of fiduciary care under a trusteeship established by operation of law, which covers the artwork and sometimes the sales proceeds held by the dealer in trust for the artist.[7] Thus, a dealer may be strictly based on an absolute duty owed to the artist, whether the dealer purchased works outright or sold the works. In either scenario, the dealer does not have the right to his or her commission until the artist is paid in full for the agreed upon percentage of the sale. Some states allow the artist to waive such provisions in writing—for example, by permitting installment payments to be divided equally between the dealer and artist. New York permits a limited waiver, excluding the first $2,500 of proceeds received in any 12 month period, starting with the date of the waiver.[8] Other states, such as California, nullify any attempt at waiver.[9]

B. The 2012 Amendments

The amendments sought to strengthen the existing trust property and trust fund provisions of Articles 11 and 12 of NYACAL and prevent unintended interpretations from interfering with the purpose of these Articles. Effective November 6, 2012, the consignee art merchant became subject to significant new duties and liabilities. Galleries that disregard their obligations under the statute may now be criminally sanctioned, and may be required to pay attorneys' fees to artists in civil suits.[10]

The proposed legislation arose in the wake of the demise of the Salander-O'Reilly Gallery in 2007 and a growing awareness of the vulnerability of artists who consign works to galleries.[11] In the Salander-O'Reilly case, the premier gallery, which had been in business for over 20 years, experienced financial problems and had difficulty paying its artists and other consignors monies owed for the sale of artworks; by 2007, it stopped making payments altogether.

In October 2007, an involuntary petition was filed, and later that year, the gallery filed for voluntary bankruptcy under Chapter 11 of the U.S. bankruptcy laws. Thereafter, the gallery's principal, Lawrence Salander, was indicted and in March 2010 pled guilty to numerous fraud and larceny charges. He was subsequently sentenced to six to 18 years in prison and ordered to pay $114 million in restitution. The gallery was not charged with comingling or misuse of funds.[12]

Millions of dollars owed to artists, their heirs or estates went unpaid. Since Salander intermingled his own property with proceeds from sales of artworks that he had not transmitted to consignors, the gallery's creditors attempted to claim the consigned artworks in the gallery's possession or control as assets of the bankruptcy estate. Many clients ended up having to buy their works back from the bankruptcy estate.[13]

Until the change in the artist consignment statute in 2012, there was no law requiring a gallery to establish a separate escrow account, similar to a lawyer's client account. Galleries frequently did not segregate the portion of the sales proceeds that belong to the artist from the portion of the sales proceeds that is owed to the gallery, but rather, placed the total sales proceeds in a single account that is also used to pay for the gallery's regular operating expenses.

1. Article 11

Importantly, the amended statute expands the scope of Article 11 (Definitions) to include a definition of "successor in interest" that includes heirs, personal representatives, testamentary beneficiaries, and trustees or beneficiaries of lifetime trusts, while cross-referencing the applicable definitions in New York's Estates, Powers and Trusts Law (EPTL). The law also clarifies that the heir can acquire the artwork directly from the artist or from another heir or beneficiary of the artist. By clearly defining who can enforce rights under the statute, and by cross-referencing EPTL definitions, the new law aims to avoid confusion and unnecessary litigation and protect consignors who might not otherwise enforce their rights.

2. Article 12

Undoubtedly, the most critical aspect of the amended statute is that it explicitly states that the artwork and proceeds are considered property held in statutory trust and are not and shall not become the property of the art merchant or the art merchant's bankruptcy estate.[14] The amended statute also includes a provision specifying that the trust property and trust funds referred to shall not be subordinate to any claims, liens or security interests "of the consignee's creditors."[15]

Accordingly, if the gallery consignee is insolvent and sells an artist's work, neither the gallery nor the gallery's creditors can legally touch the artist's share of sales proceeds, which are held in trust for the artist. Both the consigned artwork and proceeds held in trust are beyond the reach of the gallery and the gallery's creditors.

Another amendment protecting the artist is the safeguard that artists cannot agree to waive their rights under the statute prospectively absent "words which clearly and specifically apprise the consignor that the consignor is waiving rights under this section with respect to proceeds from the sale of the consignor's work…"[16] Without this cautionary language, a gallery might obtain a waiver from the artist without fully informing the artist that he or she is forgoing his or her statutory right to proceeds, thereby undermining the purpose of trust fund law and the amendment. Some commentators argue that by simply modifying the law's waiver provision rather than striking it, the amended statute still provides a loophole for galleries that wish to avoid their fiduciary obligations by including a waiver provision in their consignment agreements, which artists with little bargaining power may be inclined to sign on a "take it or leave it" basis. Others believe that the amendments significantly mark a significant improvement over the original law because a gallery is no longer allowed to obtain a waiver without disclosing to the artist that he or she has statutory rights to sales proceeds.[17]

The amendments also add a new section 2 to Section 12.01, cross-referencing the requirements of fiduciaries in Section 11-1.6 of the EPTL.[18] Therefore, the gallery as consignee has the fiduciary duty to keep the trust funds separate from the consignee's own property and cannot treat the trust property or trust funds as if they were the fiduciary's own property or funds. Further, by cross-referencing to Section 11-1.6 of the EPTL, it is clear that a breach of such obligations includes the penalties for committing a misdemeanor.

Finally, the amended statute creates a new Section 3 that further specifies that an artist may seek injunctive relief and recover actual damages and reasonable attorneys' fees if the artist is successful in an action against the gallery for breach of fiduciary duty.

II. Artist's Resale Rights

There have been important developments in the area of Artist's Resale Rights in both Congress and federal court.

A. The Proposed Federal Legislation

In December 2011, a bill was introduced in both houses of Congress proposing the passage of the Equity for Visual Artists Act of 2011 (EVAA).[19] This bill, which would amend existing copyright law, would require major auction houses to set aside 7% of any sale larger than $10,000.[20] Half of that money would go to the artist and half into an art acquisition fund for nonprofit art museums.[21] The law would not apply to sales by dealers or auction houses with less than $25 million in annual sales, or those that operate solely on the Internet.[22] The U.S. Copyright Office accepted comments on the proposed legislation until December 5, 2012.

The sponsors of the bill, Senator Herb Kohl (D-Wis.) and Representative Jerrold Nadler (D-N.Y.), believe that EVAA would help put artists on a more equal footing with authors, playwrights, composers and musicians who receive royalties when their works are purchased and performed. Artists, on the other hand, are not paid when their works are resold (although artists may license images of their work if they retain the copyright). The bill specifies that collecting societies may keep up to 18% of the royalties for administrative expenses (similar to music Performing Rights Organizations, such as ASCAP and BMI).

B. Existing Artist Resale Royalties Laws

This bill is not the first of its kind. Several bills aimed at creating a royalty on the resale of visual art at the federal level died in Congress during the 1980s. At the state level, California is the only one with an artist's resale royalty law.[23] By contrast, the artist's resale royalties right in some form has been firmly established in more than 30 other countries throughout the world, including European Union member nations, which adopted Directive 2001/84/EC in 2001.[24] The U.K. came into compliance with the passage of the Artist's Resale Rights Regulations 2006.[25]

1. California Resale Royalty Act

The California Resale Royalty Act (CRRA), enacted in 1976, entitles the artist to 5% of the resale of any work of fine art of $1,000.[26] The right applies to sales that take place in California or if the seller resides in California, and continues for the life of the artist plus 20 years.[27] The artist must be a citizen of the U.S. or resident of California for a minimum of two years.[28] In the years since its passage, the CRRA has generated a good deal of debate.[29] Opponents have argued that the law is unconstitutional, and in violation of the Commerce Clause,[30] the Takings Clause,[31] the first sale doctrine,[32] and/or that it is preempted by the federal copyright law.[33]

a. Is the California Resale Royalty Act Constitutional?

The CRRA, however, may soon be defunct. In October 2011, a group of artists, including Chuck Close and Laddie John Dill, joined the estate of sculptor Robert Graham in filing three class-action suits in federal court in L.A. against Christie's and Sotheby's in New York for allegedly failing to pay royalties in violation of the 1977 California Resale Royalty Act.[34] The suits claim that the auction houses routinely violate the law by purposefully concealing the identities and residencies of sellers who live in California, thereby circumventing the 5% royalty due as agents for the sellers.[35]

On May 17, 2012, Judge Jacqueline Nguyen of the U.S. District Court for the Central District of California granted the auction houses' motion to dismiss, finding that the California resale royalty law was unconstitutional on Commerce Clause grounds.[36] Judge Nguyen wrote, "Under its clear terms, the [law] regulates transactions occurring anywhere in the United States, so long as the seller resides in California,"[37] noting that "[e]ven the artist—the intended beneficiary of the CRRA—does not have to be a citizen of, or reside in, California."[38] The statute's reach is "problematic"[39] because it has the ""practical effect" of attempting to regulate interstate commerce, which is solely the purview of Congress. Accordingly, the California statute violates the Commerce Clause per se because it "explicitly regulates applicable sales of fine art occurring wholly outside California" even though it may have some "effects within the State."[40]

At this writing, the case is on appeal before the Ninth Circuit and is being closely watched, especially since the awareness and enforcement of the California resale royalty law has been inconsistent. Most artists and galleries either are not aware of it or ignore it. Since its enactment in 1977, about 400 artists have received a total of $328,000.[41] If the Ninth Circuit affirms the district court's ruling that the law is unconstitutional, then a federal law would be the only option for the resale right in the U.S.[42] However, if the Ninth Circuit reverses, finding the CRRA constitutional, this ruling could affect how the secondary market in California does business—or move that business to another state.[43]

Conclusion

Each of these statutes will continue to have an important impact on art dealings in the future. The amended artist consignment statute fortifies the law's provisions on trust property by including civil enforcement and criminal penalty provisions. Furthermore, the amendments clarify the dealer's fiduciary obligations to the artist and increase the artist's awareness of his or her rights.

The federal artist's resale rights legislation will be more divisive, with strongly articulated arguments on both sides for its enactment. If the CRRA is deemed to be unconstitutional, a federal resale royalty statute may be the only possibility for artists to earn royalties on future sales of their works. Whether such a law would be in the interest of the majority of artists will continue to be hotly debated for the foreseeable future.

Endnotes

1. The legislation, Assembly Bill A.8604-B, can be viewed here: http://assembly.state.ny.us/leg/?default_fld=&bn=A08604&term=&Summary=Y&Actions=Y&Votes=Y&Memo=Y&Text=Y. The corresponding Senate Bill: http://open.nysenate.gov/legislation/bill/S4988-2011. For background on the Artist Consignment statute, *see* Report on Legislation by the Art Law Committee, May 2012, available at http://www.nycbar.org/pdf/report/uploads/3_20071866-CommentsonArticles11and12ofNYArtandCulturalAffLaw.pdf. In 2011, the Entertainment, Arts and Sports Law Section voted in favor of joining the New York City Bar in support of this legislation (A.8604-B/S.4988-B). EASL's Memorandum in Support of the Amendments can be viewed here: http://www.nysba.org/Content/ContentFolders/Legislation/LegislativeMemoranda20112012/Entertainment1.pdf. The New York City Bar's "Report on Legislation by the Art Law Committee" concerning the bill's approval can be viewed here: http://www.nycbar.org/pdf/report/uploads/3_20071866-CommentsonArticles11and12ofNYArtandCulturalAffLaw.pdf.
2. N.Y. Arts & Cult. Aff. Law § 12.01.
3. Cal. Civ. Code § 1738-38.9.
4. Alaska Stat. § 45.65.200; Ariz. Rev. Stat. Ann. § 44-1772; Ark. Code Ann. § 4-73-207; Cal. Civ. Code § 1738.6; Colo. Rev. Stat. § 6-15-102; Conn. Gen. Stat. Ann. § 42-116l; Fla. Stat. Ann. § 686.503; Ga. Code Ann. § 10-1-520–29; Idaho Code Ann § 28-11-102; 815 Ill. Comp. Stat. Ann. 320/2; Iowa Code Ann. §§ 556D.2–5; Ky. Rev. Stat. Ann. §§ 365.855–60; La. Rev. Stat. Ann. § 51:2151; Md. Code Ann. Com. Law §§ 11-8A-01–04; Mass. Ann. Laws ch. 104a, §§ 1–6; Mich. Comp. Laws §§ 442.311–15; Minn. Stat. Ann. §§ 324.01–10; Mo. Rev. Stat. 407.900–10; Mont. Code Ann. §§ 22-2-501–03; N.H. Rev. Stat. Ann. §§ 352:3–12; N.J. Stat. Ann. §§ 12A:2-329–36; N.M. Stat. Ann. §§ 56-11-1–3; N.Y. Arts & Cult. Aff. Law § 12.01; N.C. Gen. Stat. §§ 25C-1–4, 25C-12; Ohio Rev. Code Ann. §§ 1339.71–78; Or. Rev. Stat. §§ 359.200–55; 73 Pa. Cons. Stat. §§ 2121-30; Tenn. Code Ann. §§ 47-25-1001–06; Tex. Occ. Code Ann. §§ 2101.001–03; Wash. Rev. Code §§ 18.110.010–30, 18.110.900; Wis. Stat. Ann. §§ 129.01–08.

5. Robert E. Duffy, Art Law: Representing Artists, Dealers, and Collectors 384-87 (Practicing Law Institute), *reprinted in* Ethics and the Visual Arts, 865-67 (Kluwer Law Int'l 5th ed. 2007).
6. *Id.*
7. *See* Alexandra Darraby, Art, Artifact, Architecture & Museum Law § 9.90 (Vol. 1 2012).
8. *See* N.Y. Arts & Cult. Aff. Law § 12.01.
9. *See* Cal. Civ. Code § 1738.6.
10. *See* Amelia K. Brankov, *New York Strengthens Law Governing Consignments From Artists to Galleries*, N.Y.L.J. 4 (col. 1), Vol. 248, No. 120 (Dec. 21, 2012).
11. *See* Judith B. Prowda, *The Need to Amend New York's Art Law*, N.Y.L.J. 11 (col. 1), Vol. 245 No. 15, Special Edition, NYSBA Annual Meeting (Jan. 24, 2011).
12. *See* John Eligon, *Art Dealer Is Sentenced for $120 Million Scheme*, NYT, Aug. 3, 2010, *available at* http://www.nytimes.com/2010/08/04/nyregion/04salander.html?_r=0.
13. Rachel Corbett, *Can a Beefed Up Law Protect New York Artists From Deadbeat Dealers?* Blouin Artinfo, Nov. 22, 2012, available at http://www.artinfo.com/news/story/834308/can-a-beefed-up-law-protect-new-york-artists-from-deadbeat.
14. NYACAL, Section 12.01.1(a)(ii) and (iii).
15. *Id.*
16. *Id.* at 12.01(a)(iii).
17. *See* Brankov, *supra* n. 10.
18. *Id.* at Section 12.01(2), cross-referencing Section 11-1.6 of the EPTL.
19. Equity for Visual Artists Act of 2011, S. 2000; H.R. 3688, 112th Cong. (2011). *See also* Judith B. Prowda, *Assessing Artist's Resale Rights Legislation*, 247 N.Y.L.J. 12 (Jan. 23, 2012) (arguing against the passage of the Equity for Visual Artists Act of 2011).
20. *Id.*
21. *Id.*
22. *Id.*
23. Cal. Civ. Code § 986 (amended 1982). The law was introduced by Assemblyman (later Senator) Alan Sieroty of Los Angeles, who also successfully introduced the California moral rights statute. Other states (Florida, Illinois, Iowa, Maine, Michigan, Nebraska, New York, Ohio, Rhode Island, and Texas) have introduced, but never passed, resale royalty legislation. *See* Stephanie B. Turner, *The Artist's Resale Royalty Right: Overcoming the Information Problem*, 19 UCLA Ent. L. Rev. 329, 339, 370, n. 57 (2012); Marilyn J. Kretsinger, *Droit de Suite: The Artist's Right to a Resale Royalty*, 15 Hastings Comm. & Ent. L.J. 967, 969 n. 8 (1992).
24. Report on the Implementation and Effect of the Resale Right Directive (Dec. 14, 2011), *available at* http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2011:0878:FIN:EN:PDF.
25. On January 1, 2012, the U.K. regulation included protection for the heirs or estates of artists deceased within 70 years.
26. Cal. Civ. Code § 986. *See* Ben W. Bloch et al., *An Economic Analysis of the California Art Royalty Statute*, 10 Conn. L. Rev. 689 (1978); if the artist died prior to January 1, 1983, the resale right terminated at death. Cal. Civ. Code § 986(a)(7).
27. Cal. Civ. Code § 986. *See* Bloch, *supra* note 26.
28. Cal. Civ. Code § 986 (c)(1). The statute originally applied to foreign artists, but after public criticism that the law should only subsidize California artists, was amended to require a minimum two-year residency. The reference is sometimes referred to as "the David Hockney clause" named after the British artist who maintains a residence in California. John Henry Merryman, Albert E. Elsen and Stephen K. Urice, Law Ethics and the Visual Arts 589 (5th ed. 2005), at n. 4.
29. *See* Turner, *supra* note 23, for in depth discussion of the scholarly debate on the CRRA.
30. U.S. Const. art. I, § 8, cl. 3.
31. U.S. Const., amend. 5; *see*, Turner, *supra* note 23 (citing Emily Eschenbach Barker, *The California Resale Royalty Act: Droit de [not so] Suite*, 38 Hastings Const. L.Q. 387 (2011) (arguing that "California's statutory version of droit de suite…effects a Fifth Amendment taking of property and thus requires just compensation")).
32. 17 U.S.C. §109(a). Under the first sale doctrine, creators do not retain the right to control the subsequent dissemination of copies of works once they have been sold.
33. *See* Turner, *supra* note 23 at 339. In Morseburg v. Baylon, 621 F.2d 972 (9th Cir. 1980), the Ninth Circuit found that the Copyright Act of 1909 did not preempt the state law. However, several commentators have argued that the law would be preempted under the amendments made in the Copyright Act of 1976. *See, e.g.*, Gordon P. Katz, *Copyright Preemption Under the Copyright Act of 1976: The Case of Droit de Suite*, 47 Geo. Wash. L. Rev. 200 (1978).
34. Estate of Robert Graham et al. v. Sotheby's Inc., Sam Francis Found. et al. v. Christie's, Inc., 860 F.Supp.2d 1117 (C.D. C.A. 2012). *See also* Patricia Cohen, *Artists file lawsuits, seeking royalties*, New York Times, Nov. 2, 2011, C1, *available at* http://www.nytimes.com/2011/11/02/arts/design/artists-file-suit-against-sothebys-christies-and-ebay.html?pagewanted=all; *See also, Artists sue Christie's and Sotheby's for resale royalties*, L.A. Times, Oct. 18, 2011, *available at* http://latimesblogs.latimes.com/culturemonster/2011/10/artists-sue-christies-and-sothebys-for-resale-royalties.html.
35. Graham, *supra* note 34. A similar lawsuit was filed against the online auction site eBay in San Jose. In addition, the foundation representing the estate of artist Sam Francis was included as a plaintiff in the lawsuit against Christie's, but not against Sotheby's, which was holding a major exhibition of Francis's work. The Sam Francis Foundation is the lead plaintiff in a separate class action lawsuit against nine California galleries, claiming artist's royalties. Jori Finkel and Mike Boehm, *Sam Francis Foundation sues nine galleries for artists' royalties*, L.A. Times, Nov. 2, 2011 *available at* http://articles.latimes.com/2011/nov/02/entertainment/la-et-artists-royalties-20111102.
36. Graham, *supra* note 34.
37. *Id.*
38. *Id.*
39. *Id.*
40. *Id.* at 1124.
41. *Id.*, quoting Patty Milich, Resale Royalty Act coordinator at the California Arts Council. That list includes the estates of the Grateful Dead guitarist Jerry Garcia (who made drawings), Jean-Michel Basquiat, Albert Hirschfeld and Larry Rivers.
42. That is, under the Commerce Clause, other states would not be able to enact laws that apply to interstate transactions. Those states could pass laws that apply to intrastate commerce, but practically speaking, that would have little effect since art sales are frequently interstate. *See* Turner, *supra* note 23 at n. 70.
43. *See* Turner, *supra* note 23 at n. 70.

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From Berne to Madrid and Beyond: The Road to International Copyright and Trademark Protection in the United States

By Eric Stenshoel

The past 25 years have witnessed a remarkable change in the law of the United States with respect to the international protection of copyrights and trademarks, as embodied in the Berne Convention and the Madrid Protocol. On March 1, 1989, 103 years after the formation of the Berne Union, the United States eliminated its formal notice requirement for copyright protection, which was the fundamental barrier to accession to the Berne Convention. A little over eight months later, on November 16, 1989, a new trademark law reversed the requirement of use of a trademark as a prerequisite to applying for federal registration, bringing U.S. law into conformity with that of the vast majority of other nations. On November 2, 2003, the United States finally became a party to the Madrid Protocol. These events fell into a discernable pattern of rapprochement with the basically Eurocentric development of international law and procedures for the protection of intellectual property. A quarter century later, U.S. copyright and trademark law is much closer to that of Europe, but important differences remain.

I. The Process of Assimilation

International protection for intellectual property began with the Convention for the Protection of Industrial Property (Paris Convention), signed in 1883 and dealing with patents and trademarks.[1] That same year, the Association Littéraire et Artistique Internationale inaugurated work on an agreement for international copyright registration, which was signed three years later in Berne, Switzerland (Berne Convention or Berne).[2] In 1891, building on the foundation of the Paris Convention, several European nations entered into the Madrid Agreement (Madrid), which permitted unified filing of trademark applications among its members.[3]

The United States accepted the principle of national treatment of proprietors of patents and trademarks—that is, equal treatment of foreign and domestic applicants and registrants—when it adopted the Paris Convention[4] in 1887. Four years later, Congress gave statutory recognition to the principle of protection of foreign copyrights,[5] but the United States declined to adopt either the Berne Convention or the Madrid Agreement since they contained elements which were considered antithetical to U.S. law: the automatic granting of copyright without formalities[6] and the recognition of trademark rights prior to actual use. It ultimately took another century for the United States to accept these two fundamental elements of international protection.

While resisting attempts to adopt these principles, the United States sought alternate means of cooperation with the international community, such as the Universal Copyright Convention (UCC)[7] and the Trademark Registration Treaty (TRT)[8] on terms that it hoped would elevate the U.S. legal principles to world standards. During the ascendancy of U.S. political and economic power in the 20th century, this policy was reasonably successful with respect to the UCC. Although the TRT was effectively stillborn,[9] the practice of the U.S. Patent and Trademark Office (USPTO) eventually permitted foreign applications without requiring use anywhere, basing its position on the provisions of the Paris Convention.

Nearly a quarter century later, however, it is apparent that the primary effect of this policy was to provide a stepping stone for the further development of U.S. law in the direction charted in Europe over a century ago.

II. Copyright

As a young nation anxious to import culture, the United States had very little interest in affording adequate protection to foreign authors. Publishers in the United States routinely pirated the works of English authors, including Dickens and Trollope.[10] Only after the formation of the Berne Union, under the Berne Convention, did the United States subscribe to national treatment, the central tenet of international protection of intellectual property. This step forward, accomplished in the Chace Act of 1891, was accompanied not only by formalities[11] rejected by Berne in the Berlin revision of 1908[12] but also by the overtly protectionist "manufacturing provision" that denied copyright protection to foreign works unless they were printed in the United States.[13]

Following World War I, in a spate of internationalism, Congress made many attempts to bring U.S. law into closer conformity to Berne, with eights bills introduced between April 1922 and October 1923.[14] In 1924, Congress considered a major revision, the Dallinger bill, which would have cleared the way for memberships in Berne.[15] Although the bill achieved widespread support, it was finally killed by opposition from the National Association of Book Publishers on the ground that elimination of the manufacturing provision would deprive the industry of its protected American market.[16] That Congress credited this argument indicates that, whatever the accomplishments of U.S. authors by this time, their markets abroad were not substantial enough to change the nation's self-image as an importer and user of copyrighted material.

The failure of the Dallinger bill was followed by six other legislative efforts before World War II to bring the United States into Berne. Some of these were based on the Dallinger bill,[17] while others were "minimalist" approaches, providing for only the changes deemed absolutely essential to qualify for Berne.[18] Even though these efforts were lacking in coherence, the continuing pressure for change demonstrated the increasing importance of the film and recording industries as exporters to foreign, principally European, markets.[19] The final pre-war effort to revise U.S. copyright law, in 1935-36, foundered as its proponents became uncomfortable with the changes in the political climate in Germany and Italy.[20]

After World War II, Europe wanted better access to the American market and the United States became a leading exporter of copyrighted works, making the U.S. failure to join Berne more critical.[21] Although larger U.S. publishers had discovered the so-called "back door" to protection under Berne by simultaneously publishing in Canada and the United States, thereby qualifying the publications for protection under Berne, there was fear of retaliation if no further steps were taken toward coordination with Berne.[22]

The members of the Berne Union were unwilling to dilute the protection afforded to authors, however, in order to attract the United States.[23] At the same time, although it had relaxed the requirement of the manufacturing provision with several exceptions,[24] the United States was unwilling to accept the principle of automatic copyright without the formalities of notice and registration, believing that these formalities were necessary to insure "the fullest possible use of intellectual works consistent with the encouragement of authorship."[25] Indeed, it was felt that the procedures were eminently sensible and should be used as a model for the rest of the world. Many still shared the opinion expressed two decades earlier by the Chairman of the Committee on Patents in hearings on the possibility of U.S. conformity to Berne: "instead of having Europe to educate us, why can't we educate Europe and have Europe adopt the principle of copyright notice and registration?"[26]

The solution to this impasse was the promulgation of the UCC under the auspices of UNESCO.[27] The UCC was designed to require only minimal changes in domestic law[28] and the formalities of notice and registration under U.S. law were relatively simple and inexpensive.[29] Congress provided an incentive to members of the Berne Union to join the UCC with the exemption of all UCC works from the weakened but still troublesome manufacturing provision.[30] The UCC treaty succeeded in attracting most of the existing Berne Union members and a number of other countries as signatories.[31] The overlapping of membership and the practice of holding joint meetings encouraged peaceful coexistence and even cooperation between the treaty groups, but an underlying assumption on the part of the U.S. about the superiority and ultimate victory of its position as expressed in the UCC caused it to adopt a competitive stance. For example, in 1967, the two camps were both courting the developing nations as potential members in a "polite but fierce competition" whose outcome was described as "very much in doubt."[32]

The competition between the two treaties was inherently uneven, however. While the UCC had been designed to accommodate both Berne and non-Berne members so that UCC signatories were free to join Berne without affecting their UCC relations, the Berne members were able to include a provision to prevent any Berne member from leaving the union and relying solely on the UCC.[33] In effect, the UCC became a recruiting tool for Berne,[34] while the United States found itself increasingly left out of the deliberations affecting international copyright protection.[35]

By 1976, the United States was ready to begin harmonization of its copyright law to the standards of Berne. In the Copyright Revision Act of 1976,[36] Congress finally eliminated the "manufacturing provision" and changed the term of copyright protection to the life of the author plus 50 years,[37] a change which was promoted to obtain the "benefits of uniformity with foreign laws" and because "[w]ithout this change, the possibility of future United States adherence to the Berne Copyright Union would evaporate."[38] Acceptance of the Berne principles of automatic copyright and elimination of the formalities of registration as a condition to copyright enforcement were not achieved until passage of the Berne Convention Implementation Act (BCIA)[39] over a decade later.

From the legislative history of the Berne Convention Implementation Act, it is clear that there was no longer any dispute that the international standard for copyright protection was set by Berne and not by the UCC. Berne standards were described as "high, reasonable and widely accepted internationally"[40] and the foundation of "an international legal consensus on the basic rules of authors' rights."[41]

Underlying these statements was the stark reality that there were over 20 Berne members who were not members of the UCC and were therefore safe havens for unlicensed copying and sale of U.S. copyrighted material as long as the United States remained outside of Berne.[42] The extent of such copyright piracy was enormous, amounting to "well over $1 billion" each year.[43] A repeated theme in the Congressional deliberations was that the U.S. position in negotiations to stop the piracy, whether in bilateral talks[44] or within the General Agreement on Tariffs and Trade (GATT), was being greatly weakened by the perception that the United States was unwilling to bring its laws up to the prevailing world standard. In testimony before the Senate Committee on the Judiciary, C. William Verity, the Secretary of Commerce, cited the example of Thailand, a member of Berne, where other Berne members were able to enforce their copyrights by police action while the claims of the United States, based on simultaneous publication, were considered too tenuous to merit such a response.[45]

The ultimate rationale for implementing Berne was that it was necessary to the competitiveness of the United States. With copyright industries accounting for 5% of the GNP and returning a trade surplus of over $1 billion,[46] the United States had become the largest exporter of copyrighted materials in the world, economically dependent upon trading partners who were all members of Berne.[47] In 1988, faced with the exclusion of the United States from effective participation in the formulation and management of international copyright policy,[48] Congress finally abandoned its reliance on the UCC and passed the BCIA. As stated by Denis de Freitas, Chairman of the British Copyright Council, on the occasion of the 100th anniversary of the Berne Union:

> I regard the UCC as a worthy United Nations initiative designed in the middle of the 20th century to enable developing countries (notably the United States of America) to enter into multilateral copyright relations with those countries which have been developing the copyright system internationally from the middle of the last century to the sophisticated code now embodied in the Berne Convention.[49]

In passing BCIA, Congress decided not to make the Berne Convention self-executing, requiring instead that U.S. copyright law be amended as necessary to comply with the obligations of the treaty. Although the BCIA included amendments to implement the principle of automatic copyright, it did nothing to bring U.S. law into compliance with Berne's recognition of the doctrine of moral rights, which holds that the creators of artistic works have certain personal rights in their creations that transcend their economic rights in the works. The doctrine encompasses four basic rights: disclosure, retraction, attribution and integrity. The rights of disclosure and retraction recognize that the artist is the sole judge of when a work is finished and worthy of public disclosure or display. The right of attribution gives the artist control over whether and how his or her name will be associated with the work. The right of integrity gives the artist control over alteration, distortion or destruction of the work, including the contexts in which it may be displayed. At the time, it was argued that explicit protection of moral rights was not necessary because other Berne signatories were not in full compliance[50] and that then existing U.S. law, including the Lanham Act and laws relating to defamation, privacy, publicity, and unfair competition, contained "the basic elements of moral rights sufficient to comply with Berne."[51]

In fact, subsequent efforts by artists to vindicate their moral rights under the Lanham Act and other laws have often been turned back.[52] A number of states, including New York and California, enacted statutes which typically protected the moral rights of integrity and attribution[53] although they were inconsistent in their coverage as well as on the duration of protection, waivers and remedies and were nearly always restricted to visual arts.[54] Even these fledgling developments were largely pre-empted, however, when Congress adopted the Visual Artists Rights Act (VARA)[55] in 1990. VARA was another step toward the Berne standard in that it granted federal recognition of some of the moral rights of visual artists, but its narrow definition of visual art[56] and its limitation of the right to prevent destruction to works of "recognized stature"[57] have made it very difficult for visual artists to assert their moral rights in court, leaving them with even less protection than they were afforded under the state laws.[58] Moreover, with the exception of Puerto Rico, [59] none of the statutes protect musical artists.

It remains to be seen whether the United States will continue on a course toward compliance with the moral rights obligation of Berne. Other common law jurisdictions, such as Canada, Australia and New Zealand and the United Kingdom, now protect moral rights in both visual art and music,[60] which weakens the argument that moral rights are incompatible with the common law tradition. On the other hand, it was the economic interest of U.S. publishers in ensuring their copyrights abroad that drove the United States to join Berne. Since moral rights are personal rather than economic in nature, they are unlikely to attract the level of support necessary to overcome the traditional U.S. antipathy toward them in the absence of strong pressure from the international community.

III. Trademark

The most enduring barrier to U.S. participation in the development of international trademark law—the requirement of actual use before application for registration—was not instigated by Congressional action. In the Trade-Mark Act of 1870, Congress had permitted registration based on the intent to use a mark. This provision was eliminated by judicial enforcement of a constitutional limitation on the power of Congress. While Congress is constitutionally empowered to regulate patents and copyrights, its power over trademarks flows from its general power to regulate commerce. As marks not yet in use were deemed not to affect commerce, the 1870 law was struck down in the Trade-Mark Cases.[61] Thus, at the international conference of 1880 in preparation for the Paris Convention, the United States delegation was under strict instructions that any conclusions of the conference respecting trademarks "must be considered as absolutely subordinate to such legislative provisions as may hereafter be made" by the United States.[62] The subsequent legislative provisions, in the Trade-Mark Act of 1905, required use in commerce and specimens of use as preconditions to application for registration.[63]

The Paris Convention contained three elements that together set the stage for the eventual assault on the requirement of actual use. First was the principle of national treatment, contained in Article 2.[64] The second element, the right of priority contained in Article 4, granting retroactive protection in member countries based upon filing in another member country, was a new idea. It has been called "the most significant innovation and contribution of the Paris Convention…. There had been nothing like it in earlier bilateral treaties."[65] The third element was the most controversial. It would eventually serve as the wedge to crack open the U.S. requirement of use. It was contained in Article 6 (now 6 quinquies) of the Convention and is generally known by the French phrase "telle quelle," referring to the requirement that "[a]ny trademark duly deposited in the country of origin shall be admitted to deposit and protected 'telle quelle' [in original form] in all other countries of the Union."[66]

As in the case of copyrights, the Paris Convention was soon followed by a European vision of a more unified approach to international trademark protection: the Madrid Agreement of 1891. The Madrid Agreement "institutionalized and systematized the underlying philosophy of the 'telle-quelle' provision"[67] by extending the country of origin registration of a trademark to other member countries without a multiplicity of national filings and creating a presumption of validity for such extended applications unless denied within 12 months by the member country affected.[68]

The United States objected to several provisions of the Madrid Agreement, but the primary objection was that it allowed the international registration of trademarks without a requirement of use. Since international filings under Madrid were based on registration in the country where the registrant was organized or carried on business, the Agreement would enable applicants in a country not requiring use to obtain priority over those in use based systems. It was also feared that membership in Madrid would subject the United States to a proliferation of registrations of unused marks.[69]

Several of the minor U.S. objections were addressed in the 1957 Nice Revision.[70] The United States did not consider the changes sufficient, however, and suggested further revisions in 1969. Discussions were held under the auspices of the World Intellectual Property Organization (WIPO) in 1970, but they eventually foundered, in large part on the issue of whether use should be a prerequisite for registration.[71]

At the close of the unsuccessful WIPO conference in April 1970, the United States proposed a separate treaty for the international registration (or, more accurately, the international filing) of trademarks which, following the successful example of the UCC, would be open to all members of the Paris Convention but could coexist with the Madrid Agreement. As in the case of the UCC, an element of competition was present, with the hope that a new treaty could replace the Madrid Agreement.[72]

The resulting Trademark Registration Treaty (TRT) was finished in June 1973. It allowed filings in French or English, eliminated dependency of international registrations on country of origin registrations, and extended the time for refusal of an international application from 12 to 15 months. The treaty addressed the issue of non-use by allowing international registrations prior to use while allowing members to restrain infringement actions in the absence of use and permitting cancellation for non-use three years after registration.[73]

The preliminary predictions of commentators on the future of the TRT were gloomy.[74] They also proved accurate. Although the treaty had been suggested by the United States and was intended as a compromise, the provision allowing registration of unused marks proved too radical a change and the treaty was never ratified by Congress, which refused to make the necessary amendments to the Lanham Act.[75] Only eight countries signed the TRT and it ended up having only five members: Soviet Union, Congo, Gabon, Togo and Burkina Faso.[76]

While the United States considered and rejected the idea of protection of trademarks not yet in use, the USPTO[77] eventually created an exception to the requirement of use for applications based on foreign registrations or applications. Starting with the Merry Cow decision in 1955, it held that a United States application based upon a country of origin registration under Section 44 of the Lanham Act is exempted from the requirement of use, basing its decision on an analysis of Articles 6 A and 6 B of the Paris Convention.[78] Over the following three decades, the USPTO was inconsistent in its application of the exception[79] but, by 1984, in the *Crocker* case,[80] it had fully embraced the policy of accepting trademark applications under the Convention without any allegation of use.

The application of the telle quelle exception resulted in a disparity of treatment of foreign trademark owners, who were allowed to file applications with no allegation of use, and domestic applicants, still bound by the old rule of use. Although lobbyists for the 1988 Trademark Law Revision Act emphasized the benefits of the intent to use system on its own merits, the goal of eliminating this disparity was probably the largest factor in the adoption of the intent to use provision.[81]

With the passage and implementation of the Trademark Law Revision Act of 1988, the irreconcilable differences between the trademark law of the United States and that of the members of the Madrid Union were substantially eliminated. While these developments were occurring in the United States, the efforts at harmonizing the trademark laws of the members of the European Community resulted in the Directive of December 21, 1988, which explicitly approved the revocation of registrations of trademarks not put to "genuine use" within five years of registration.[82] This move toward consensus was combined with an effort to bring all members of the European Community (EC), including those with common law systems of trademark protection, such as the U.K. and Ireland, into the Madrid Union.[83] By seeking greater consensus with the common law systems, the Madrid Union also moved closer to the position of the United States.

Beginning with the WIPO initiative convened at the request of the 1981 Assembly of the Madrid Union, a working group of Madrid and EC members approved the Madrid Protocol of 1989 (Protocol) to link Madrid and the EC.[84] The Protocol allowed a country of origin application as the basis for international applications, eliminated all dependency on the country of origin mark following application, allowed English as a working language, permitted a national trademark office to take up to 18 months to refuse registration of an international application and permitted members to charge their own national fees.[85]

The gravitational pull of the new Protocol on the United States was immediately apparent. Speaking less than four months after the effective date of the new U.S. trademark law, Jeffrey Samuels, the Assistant Commissioner of Patents and Trademarks of the USPTO, remarked that the Protocol removed most of the objections of the United States to the Madrid Agreement and suggested that it was time for the trademark bar in the United States to start planning for membership in Madrid.[86]

Fourteen years later, in 2003, the United States finally became a party to the Protocol, completing a journey that had begun in 1887, finally making it possible for U.S. applicants to take advantage of Madrid's international filing mechanism based on an application filed in the United States. The harmonization is not complete however, since U.S. applicants must submit proof of use before they can obtain a trademark registration, while foreign applicants are granted registrations under the telle quelle exception. The practical result is that international registrations by U.S. applicants must be limited to a narrowly drawn list of specific goods or services while foreign applicants can obtain and maintain broader registrations, subject only to the risk of cancellation proceedings by third parties if they fail to commence use within three years or cancellation, in whole or in part, by the USPTO if they have not commenced use on all of the goods after six years.

IV. Conclusion

Looking back on the past quarter century of copyright and trademark law in the United States, we can perceive a dramatic conclusion to a journey that began 125 years ago. As increasing legal divergence led to its economic isolation, the United States first sought to bend the developing regime of international intellectual property law toward a compromise standard. In the end, however, these efforts did not establish new standards but rather allowed the United States to traverse most of the distance between its laws and those of Europe at a more comfortable pace.

Endnotes

1. Convention of Paris for the Protection of Industrial Property, Sept. 28, 1978, 21 U.S.T. 1583 [hereinafter Paris Convention].
2. Berne Convention for the Protection of Literary and Artistic Works, Sept. 9, 1886, 331 U.N.T.S. 217 [hereinafter Berne Convention]. The most recent revision was completed in Paris on July 24, 1971. The Paris text became effective July 10, 1974, reprinted in 9 M. Nimmer, Nimmer on Copyright, app. 27-1 (2010).
3. Arrangement of Madrid for the International Registration of Marks, reprinted in L. Altman, Callman on Unfair Competition, Trademarks and Monopolies, app., § 55:10 (4th ed. 2003) [hereinafter *Callmann*].
4. Paris Convention, *supra* note 1, arts. 2, 4.
5. International Copyright Act of 1891, 26 Stat. 1106.
6. Berne Convention, *supra* note 2, art. 5(2).
7. Universal Copyright Convention, Sept. 8, 1952, 25 U.S.T. 1341 [hereinafter "UCC"], reprinted in *Nimmer*, *supra* note 2, at app. 25-1.
8. Trademark Registration Treaty, June 12, 1973, reprinted in *Callman*, *supra* note 3, at app. § 55:20.
9. *See* discussion *infra* note 75.
10. Sandison, *The Berne Convention and the Universal Copyright Convention: The American Experience*, 11 Colum.-VLA J. L. & Arts 89, 92-94 (1986).
11. International Copyright Act, *supra* note 5 (requiring registration before publication and deposit of two copies of the work on or before the date of publication anywhere).
12. One year after the Berlin revision of Berne, Congress enacted a complete revision of the copyright law which retained and codified the formalities of notice and registration in essentially the form which remained in effect until the effective date of the Berne Implementation Act on March 1, 1989, Ch. 320, 35 Stat. 1075.
13. International Copyright Act, *supra* note 5 (liberalized but retained in the 1909 copyright law, Ch. 320, 35 Stat. 1075, Sec. 21-22).
14. Brown, *The Role of the United States in relation to the International Copyright Union In Recent Years*, 34 J. Pat. & Trademark Off. Soc'y 141, 201-02 (1952).
15. *Hearings on H.R. 6250 and H.R. 9137*, 68th Cong. (1924) (cited in Brown, *supra* note 14, at 202, n.39).
16. Brown, *supra* note 14, at 204.
17. *See, e.g.*, Vestal Bill of 1926, H.R. 10434, 69th Cong. (1926), reintroduced as H.R. 8912, 70th Cong., (1929). *See* Brown, *supra* note 14, at 206-07.
18. H.R. 5853, 73d Cong. (1933); S. 1928, 73d Cong. (1933); Duffy Bill of 1935, S. 2465, 74th Cong. (1935) (the "1933 Bills"). *See* Brown, *supra* note 14, at 215.
19. *See* discussion of the 1932 Sirovich Bill in Brown, *supra* note 14, at 212-14.
20. Brown, *supra* note 14, at 221.
21. Note, *International Copyright Protection and the United States: The Impact of the UNESCO Universal Copyright Convention on Existing Law*, 62 Yale L.J. 1065, 1083 (1953).
22. *Id.*
23. Ringer, *The Role of the United States in International Copyright—Past, Present and Future*, 56 Geo. L.J. 1050, 1060-61 (1968).

24. *Id.*

25. Henn, *The Quest for International Copyright Protection*, 39 CORNELL L.Q. 43, 58 (1953) (citation omitted).

26. *Id.* at 64, n. 106 (quoting William I. Sirovich in Hearings before Committee on Patents on General Revision of the Copyright Law, 72d Cong., 37-38 (1932)).

27. *See* Callman, *supra* note 3.

28. Note, *supra* note 21, at 1084.

29. The form of notice required was minimal—(c) followed by the date and the name of the author—and the procedure for registration was simple and inexpensive enough to be carried out without legal assistance in most cases.

30. Act of U.S. Congress of Aug. 31, 1954, ch. 116, sec. 9 (1), 68 Stat. 130 (1954).

31. All but six of the forty members of Berne at the time the UCC was promulgated acceded to the UCC. *See* Nimmer, *supra* note 2, app. 20.

32. Ringer, *supra* note 23, at 1065 (describing this competition which resulted in the Stockholm Protocol of 1967 to the Berne Convention).

33. UCC art. XVII and the related Appendix Declaration effective among Berne members who are also members of the UCC. *See* Ringer, *supra* note 23, at 1062.

34. All but two of the UCC's 100 members are also Berne signatories, while 65 of Berne's 166 signatories have not joined the UCC. Of the countries who have joined both the UCC and Berne since the UCC came into force, over twice as many joined the UCC first. *See* Nimmer, *supra* note 2, at apps. 21 & 22. Treaty information is available at http://www.wipo.int/wipolex/en/other_treaties/details.jsp?treaty_id=208 for the UCC and at http://www.wipo.int/treaties/en/ip/berne/for Berne.

35. Ringer, *supra* note 23, at 1070 (describing the frustration felt by the U.S. delegation at the Stockholm Conference as "Berne outsiders with no real influence upon the outcome").

36. U.S. Copyright Act of 1976, 17 U.S.C. §§ 101-122 (1989).

37. The term of copyright was extended to life of the author plus 70 years by the Sonny Bono Copyright Term Extension Act of 1998.

38. H.R. Rep. No. 1476, at 135 (1976), *quoted in* Sandison, *supra* note 10, at 104.

39. Pub. L. No. 100-568 (1989) (signed on October 31, 1988 and entered into force on March 1, 1989).

40. Subcommittee on Patents, Trademarks and Copyrights, Senate Committee on the Judiciary, 100th Cong. 51 (Feb. 18, 1988) (testimony of Robert W. Kastenmeier, Chairman, Subcommittee on Courts, Civil Liberties and the Administration of Justice, House Committee on the Judiciary, on U.S. Adherence to the Berne Convention) (quoted by Senator DeConcini in remarks before the Senate, October 5, 1988, Cong. Rec. S 14553) [hereinafter "*Kastenmeier Testimony*"].

41. *Id.*

42. Statement of Hon. C. William Verity, the Secretary of Commerce, 100th Cong. 122 (1988) [hereinafter "*Verity Testimony*"].

43. *Id.* at 70.

44. *Id.* (referring to the case of Thailand, a member of Berne where the bilateral treaty with the U.S. was invalidated by a Thai court on procedural grounds and, following substantial problems in protecting U.S. copyrights under the simultaneous publication rule, the efforts to reinstate the bilateral relations were met with irritation over the failure of the U.S. to join Berne).

45. 68 U.S. Cong. Documents, 100th Cong. 121 (1988) (answers to questions from Senator Heflin).

46. *Verity Testimony*, *supra* note 42, at 70.

47. 134 CONG. REC. H10091-02 (daily ed. Oct. 12, 1988) (statement of Rep. Fish), reprinted in 36 J. Copyright Soc'y USA 65 (1988).

48. The second major reason that the United States should join Berne is that adherence is necessary to ensure effective U.S. participation in the formulation and management of international copyright policy. U.S. adherence to Berne would give our officials the right to participate fully in the administration and management of the Convention. New technologies for the transmission and use of copyrighted works have "internationalized" intellectual property to an unprecedented extent, and U.S. participation in the premier international copyright organization is essential.

49. Freitas, *The Berne Convention and the Market Economy Countries*, 11 COLUMBIA-VLA J.L. & ARTS 73, 77 (1986).

50. Monica E. Antezana, *The European Union Internet Copyright Directive as Even More than It Envisions: Toward a Supra-EU Harmonization of Copyright Policy and Theory*, 26 B.C. INT'L & COMP. L. REV. 415, 427 (2003).

51. 134 CONG. REC. H3079-02 (daily ed. May 10, 1988) (statement of Rep. Kastenmeier).

52. Robert C. Bird and Lucille M. Ponte, *Protecting Moral Rights in the United States and the United Kingdom: Challenges and Opportunities under the U.K.'s New Performances Regulations*, 24 B.U. INT'L L.J. 213, 253-54 (2006).

53. N.Y. Arts & Cult. Aff. Law §§ 11.01-14; Cal. Civ. Code §§ 980-90.

54. *See generally* Thomas P. Heide, *The Moral Right of Integrity and the Global Information Infrastructure: Time for a New Approach*, 2 U.C. DAVIS J. INT'L L. & POL'Y 211, 233-35 (1996) and Brian T. McCartney, *"Creepings" and "Glimmers" of the Moral Rights of Artists in American Copyright Law*, 6 UCLA ENT. L. REV. 35, 55-71 (1998).

55. 17 U.S.C. § 106(A) (2005). Even without statutory preemption, state legislation that attempts to protect artists' rights cannot reach activity occurring wholly outside the state. Estate of Graham v. Sotheby's Inc., 860 F. Supp. 2d 1117 (C.D. Cal. 2012) (California statute providing a resale royalty right for fine artists on sales of art by California residents occurring outside California violated the dormant Commerce Clause).

56. VARA defines a "work of visual art" as:

> (1) a painting, drawing, print, or sculpture, existing in a single copy, in a limited edition of 200 copies or fewer that are signed and consecutively numbered by the author, or, in the case of a sculpture, in multiple cast, carved, or fabricated sculptures of 200 or fewer that are consecutively numbered by the author and bear the signature or other identifying mark of the author; or
>
> (2) a still photographic image produced for exhibition purposes only, existing in a single copy that is signed by the author, or in a limited edition of 200 copies or fewer that are signed and consecutively numbered by the author.
>
> The definition excludes:
>
> (A)(i) any poster, map, globe, chart, technical drawing, diagram, model, applied art, motion picture or other audiovisual work, book, magazine, newspaper, periodical, data base, electronic information service, electronic publication, or similar publication; (ii) any merchandising item or advertising, promotional, descriptive, covering, or packaging material or container; (iii) any portion or part of any item described in clause (i) or (ii); (B) any work made for hire; or (C) any work not subject to copyright protection under this title. 17 U.S.C. § 101.

57. 17 U.S.C. § 106A(a)(3)(B) (2002).

58. *See* Patricia Alexander, *Moral Rights in the VARA Era*, 36 ARIZ. ST. L.J. 1471, 1490-91 (2004); RayMing Chang, *Revisiting the Visual Artists Rights Act of 1990: A Follow-up Survey About Awareness and Waiver*, 13 TEX. INTELL. PROP. L.J. 129, 144-45 (2005).

59. P.R. Laws Ann. tit. 31, §§ 1401-1401(a) (2010).

60. Bird, *supra* note 52, at 276.

61. In re Trademark Cases, 100 U.S. 82 (1879).

62. Pegram, *Trademark Law Revision: Section 44*, 78 TRADEMARK REP. 141, 153, n. 74 (1988) (quoting *Foreign Relations of the United States*, 378-79 (1880)).

63. 33 Stat. 724, ch. 592 (1905). Although the commerce clause is now given a broader reading than at the time of the Trade-Mark Cases, *supra* note 61, the possibility of a constitutional objection to the intent to use provisions of the trademark law discussed in this article cannot be totally dismissed. However, full discussion of this issue is beyond the scope of this article.

64. Pegram, *supra* note 62, at 154; S.P. LADAS, PATENTS, TRADEMARK, AND RELATED RIGHTS: NATIONAL AND INTERNATIONAL PROTECTION (1975).

65. Pegram, *supra* note 62, at 155.

66. *Id.* at 156; Paris Convention, *supra* note 1, art. 6 quinquies.

67. Frayne, *History and Analysis of TRT*, 63 TRADEMARK REP. 422, 423-24 (1973).

68. *Id.*

69. Address by J. Samuels, Assistant Commissioner of Patents and Trademarks, U.S. Patent and Trademark Office, at the Association of the Bar of New York City (March 8, 1990) [hereinafter "*Samuels Address*"]; *see also* Pegram, *supra* note 62, at 425.

70. *See* Callman, *supra* note 3, at § 26:3.

71. Frayne, *supra* note 67, at 426-427.

72. Ladas, *What Does the Vienna Trademark Registration Treaty Mean to the United States?*, 63 TRADEMARK REP. 551, 568 (1973).

73. Frayne, *supra* note 67, at 32-33.

74. *See* Ladas, *supra* note 72; Frayne, *supra* note 67; and Derenberg, *The Myth of the Proposed International Trademark "Registration" Treaty (TRT)*, 63 TRADEMARK REP. 531 (1973).

75. *See* Callman, *supra* note 3, at § 27:4.

76. *See* Callman, *supra* note 3, at app. § 55:17.

77. Formerly the Patent Office. The name was changed in 1975.

78. Ex parte Societe Fromageries Bel, 105 U.S.P.Q. 392 (Com'r 1955).

79. *Cf.* In re Certain Incomplete Trademark Applications, 137 U.S.P.Q. 69 (Com'r 1963) (refusing registration of two Canadian and two UK applications for which no use was alleged) and John Lecroy & Son, Inc. v. Langis Foods Ltd., 177 U.S.P.Q. 717-18 (TTAB 1973), *rev'd* 376 F. Supp. 962 (D.D.C. 1974), *rev'd sub nom.* SCM Corp. v. Langis Foods, Ltd., 539 F.2d 196 (D.C. Cir. 1976). It has been suggested that the *Lecroy* decision by the Board was intended to "pave the way" for ratification of the Trademark Registration Treaty. *See* Derenberg, *supra* note 74, at 546.

80. Crocker Nat'l Bank v. Canadian Imperial Bank of Commerce, 223 U.S.P.Q. 909 (TTAB 1984).

81. *Intent-to-Use Applications for Trademark Registration*, 35 WAYNE L. REV. 1135, 1149 (1989). The discriminatory application of the use requirement was emphasized in the introductory remarks of the sponsors of the bill in both houses of Congress:

> Even more disturbing is the fact that foreign companies applying to register trademarks in the United States are not subject to these same use requirements that apply to U.S. applicants133 CONG. REC. S16545-03 (daily ed. Nov. 19, 1987) (statement of Sen. DeConcini), *reprinted in* the The Trademark Law Revision Act of 1988, United States Trademark Association (hereinafter "*USTA Report*") at 113 (1989).
>
> U.S. trademark law favors foreign companies seeking to obtain and register trademark rights in the United States... The legislation puts American and foreign businesses on essentially the same footing when they apply to register trademarks in the United States." 134 CONG. REC. E665-01 (daily ed. Mar. 15, 1988) (statement of Rep. Moorehead),, *reprinted in* the *USTA Report* at 129.
>
> In the report of the Senate Committee on the Judiciary, the first comment regarding the introduction of applications based on intent to use was that the bill "will improve the federal trademark registration system by eliminating the requirements that U.S. citizens and businesses, unlike their foreign counterparts, must use a mark in commerce before they can file an application to register it.

S. REP. No. 100-515, at 4 (1988) *reprinted in* the *USTA Report* at 156.

82. Council Directive, Articles 10-12. The five year period is comparable to the period for filing the compulsory statement of use under Section 8 of the Lanham Act, 15 U.S.C. § 1058 (1989). Although the Lanham Act still contains the prima facie presumption of abandonment of a trademark following two years of non-use, it is not clear how this presumption will be applied to an international application which states, but is not based upon, an intent to use, an intention which the law allows to continue for up to three years.

83. The United Kingdom, Ireland, Denmark and Greece have not joined the Madrid Agreement.

84. *See Samuels Address*, *supra* note 69.

85. Protocol Relating to the Madrid Agreement Concerning the International Registration of Marks, June 28, 1989 S. Treaty Doc. No. 106-41 (2000).

86. *See Samuels Address*, *supra* note 69.

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**Next *EASL Journal* Submission Deadline:
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EASL Literary Works and Related Rights Committee: Literary Works Law, Version 2.0: A Look Back and a Look Ahead

By Judith B. Bass

Over the last 25 years, many of us practicing law have personally experienced the technological developments that so changed the way we conducted our professional and daily lives. I vividly recall when *Time Magazine* departed from its "Man of the Year" tradition in 1982 and named the personal computer as the "Machine of the Year." We certainly did not have a computer in our home at that time. Ten years later, soon after the World Wide Web became accessible to the public, I remember being asked at my office if I wanted an AOL address for experimenting with using e-mail. I could not possibly imagine at that time with whom I would correspond.

The advent of the Internet has revolutionized the publishing industry. That revolution was accelerated in 1995 by the arrival of Amazon.com (Amazon), a radical new model of the bookshop around the corner. In 2000, the first electronic e-book device, the Rocket, was introduced. Amazon's first Kindle e-book reader debuted in 2007, and Apple's iPad launched in 2010. In an article in *The New Yorker*, Ken Auletta observed that before the iPad launched, "the industry was desperate for a savior. Between 2002 and 2008, annual sales had grown just 1.6 per cent, and profit margins were shrinking. Like other struggling businesses, publishers had slashed expenditures, laying off editors and publicists and taking fewer chances on unknown writers."[1] Furthermore, two years before launching the iPad, Steve Jobs was quoted as saying that the Amazon Kindle would go nowhere because Americans had stopped reading: "Forty percent of the people in the U.S. read one book or less last year. The whole conception is flawed at the top because people don't read anymore."[2]

In 2010, e-books accounted for just 4% of all sales.[3] By the second quarter of 2012, however, e-books accounted for 22% of all book spending, according to Bowker Market Research.[4] In addition, Amazon increased its market share of consumer book spending to 27%, becoming the largest single channel for book purchases with an 11 percentage-point lead over Barnes & Noble.[5]

Jane Friedman, CEO and co-founder of Open Road Integrated Media, an independent e-book publisher, told the audience at EASL's 2012 Annual Meeting that 12 years after the first e-book reader was introduced, electronic publishing had now arrived: "This is truly a revolution, it's not evolution, and it shows no signs of slowing down…What I think is the real future is that a great majority of people will be reading on devices going forward, and that's what we have to do is give them that content."[6]

For those of us lawyering in the publishing industry, we have been challenged to keep up with technology and create new contractual forms and other responses to the ever-changing ways of doing business. By way of example, not so very long ago, the grant of rights section in the standard author / publisher agreements merely gave the publisher the exclusive right to print, publish, distribute, and / or sell a work "in paperback and / or in hardcover form."[7] By the early 1990s, however, publishers had to expand the language to include "electronic" or digital rights.[8] More recently, there has been an even more radical re-working of such rights definitions to include "electronic book rights," "enhanced e-book rights," and "multimedia / app rights" to deal with the plethora of e-book formats as well as "apps."[9]

Accompanying the arrival of new technology has been the predictable commencement of litigation over the extent of the rights granted in pre-existing publishing agreements. Personally, I can remember back to 1990 when I was working for a large magazine publishing company and we reviewed our freelance writer agreements with regard to the rights to publish those writers' articles in "any medium of information storage and retrieval." Soon after, in 1993, this issue took center stage when Jonathan Tasini and a group of fellow freelance authors brought suit against the *New York Times*, *Time Inc.*, and *Newsday* for copyright infringement on the basis that the publishers had no right to include their articles in electronic databases like LexisNexis. That case ultimately went to the United States Supreme Court, where the Court held that the inclusion of the freelancers' articles was not authorized by Section 201(c) of the Copyright Act as part of a "revision" of a collective work and the publishers could not include those articles in the absence of an express transfer of rights.[10]

In the book publishing industry, the seminal case involving digital rights was brought in 2001 when Random House sued Rosetta Books, an e-book publisher, alleging copyright infringement of various titles Random House had published in print form, including works by William Styron and Kurt Vonnegut. Random House argued that it had the exclusive rights to publish e-books based on its contracts with those authors, some of which dated back to 1961 and 1967. In its opinion denying Random House's motion for a preliminary injunction, the United States District Court for the Southern District of New York found that the grant of rights in those contracts to "print, publish and sell the work in book form" did not include the right to publish the work as an e-book.[11] In a five paragraph *per curiam* decision, the Second Circuit Court of Appeals affirmed without "expressing any view on the ultimate merits of the case" pending the benefit of a full record over the course of the litigation.[12] The case was subsequently settled, however, so no such record became available.

In its holding, the district court in the *Rosetta Books* case said that its determination was "neither a victory for technophiles nor a defeat for Luddites."[13] However, this decision has in fact served as the legal underpinning for the burgeoning independent e-book publisher industry. As Rosetta Books says on its website: "Rosetta Books stood up for authors and agents when it mattered. We are proud of that legacy. Since e-books are disruptive to traditional trade publishing, perhaps it is appropriate that Rosetta Books emerged from a cauldron."[14] In fact, a new chapter in e-book rights is currently being written. In December 2011, HarperCollins brought suit in the United States District Court for the Southern District of New York against Open Road Integrated Media alleging copyright infringement over the publication of the young adult e-book *Julie of the Wolves* by Jean Craighead George.[15] The author herself had authorized the e-book publication but was not named as a defendant. As of this writing, the case is in discovery.

Another major development in the digital landscape is the pending civil antitrust action brought against Apple and the major publishers in April 2012.[16] In this action, the government accused Hachette, HarperCollins, Macmillan, Penguin and Simon & Schuster of violating the Sherman Act, 15 U.S.C. §1, by conspiring with Apple to raise retail e-book prices and to otherwise limit competition in the sale of e-books from Amazon by adopting the "agency model" for selling e-books.[17] In September 2012, three of the defendants, Hachette, HarperCollins, and Simon & Schuster, agreed to settle the charges and end their agency agreements with Apple.[18] In December 2012, Penguin also agreed to settle. Penguin is scheduled to complete a merger with Random House in 2013, and that may well have been a factor in the settlement. Macmillan settled in early 2013. Apple is scheduled to go to trial in June.

In an intriguing blog in the *New York Review of Books*, veteran editor and publisher Jason Epstein observed as follows regarding the pending antitrust actions:

> So far discussion of the Justice Department's suit against Apple and several major book publishers for conspiring to fix retail prices of e-books has omitted the major issue: the impact of digitization on the book industry generally… The revolutionary process by which all books, old and new, in all languages, will soon be available digitally, at practically no cost for storage and delivery, to a radically decentralized world-wide market at the click of a mouse is irreversible. The technologically obsolete system, in which physical inventory is stored in publishers' warehouses and trucked to fixed retail locations, will sooner or later be replaced by the more efficient digital alternative.[19]

So what does lie ahead for an industry facing so much technological change? For some, the resulting prognostications have been of gloom and doom. In an op-ed piece in the *New York Times* a few years ago, humorist Garrison Keillor lamented as follows: "Call me a pessimist, call me Ishmael, but I think that book publishing is about to slide into the sea."[20] Following the announcement last fall of the Random House and Penguin merger, Adam Davidson in the *New York Times* commented that "when you see a merger between two giants in a declining industry, it can look like the financial version of a couple having a baby to save a marriage."[21]

In late December 2012, Digital Book World released its "Ten Bold Predictions for Ebooks and Digital Publishing in 2013," and the first of those predictions was that even more consolidation is likely among the Big Six publishers.[22] The second prediction is that 2013 will be the year of the "enhanced e-book"—titles with greater interactivity and content that may include video footage, photography and games. Such enhanced e-books further challenge us as lawyers to ensure that our rights language and contractual provisions take into account these changing formats as we negotiate new author / publisher deals.

Another recent phenomenon is the emergence of self-publishing, as demonstrated by last year's huge best-seller, *50 Shades of Grey*, by E. L. James. That book in fact started as a self-published work before it was picked up by Random House's Vintage Books. According to a recent Bowker report, the number of self-published books produced annually in the United States has tripled since 2006.[23] According to Bowker, "Self-publishing is now supported by a sophisticated and highly accessible support structure… It's provided everyone who has a story to tell with a method for sharing it and leveled the playing field to an unprecedented degree."[24] As to whether that support structure includes appropriate contracts, vetting, liability coverage, and copyright protection remains to be seen.

Before concluding, I will give Jason Epstein the crystal ball:

> Few technological victories are ever complete, and in the case of books this will be especially true. Bookstores will not disappear but will exploit digital technologies to increase their virtual and physical inventories, and perhaps become publishers themselves. So will libraries, whose vast and arcane holdings will soon be available to everyone everywhere. E-books have been aggressively marketed for five or six years in the United States. Yet despite rapidly acquiring market share they show no sign of displacing actual books, with which they will comfortably coexist in the digital future.[25]

For lawyers, the digital publishing and self-publishing phenomena clearly present new challenges. Whereas traditionally, publishers had lawyers and authors had agents as well as lawyers, today that is often not the case. When self and e-book publishers are small independent companies, they may not have an in-house staff or even outside lawyers with whom to consult. Similarly, when authors are self-publishing and getting little or no advances, the budget for legal fees is often meager, if at all. That does not mean, however, that the legal issues do not exist. Lawyers must become more nimble to reach the publishers that and authors who are in the game now in a cost-effective way. By staying current with technological and industry developments and offering services in new and creative ways, we lawyers will continue to provide value as well.

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Entertainment, Arts and Sports Law Journal: Round-Up of Publishing-Related Articles 1989-2012

By Joan S. Faier

For the EASL's 25th Anniversary, the Literary Works and Related Rights Committee decided to take a look back at what *EASL Journal* contributors were writing about in articles of particular interest to the publishing community from 1989 to present. Throughout the years, the *EASL Journal* offered at least 29 articles on the most timely topics of the day that were of note to the publishing industry, both about discrete cases as well as creating an ongoing dialogue on controversial topics.

The first article on a topic of critical concern to the scholarly community, entitled *Unpublished Works and the Fair Use Copyright Defense,* appeared in the Winter 1991 issue—the second issue of the *Journal*. The article examined the three key cases involving the "fair use" defense for unpublished works—*The Nation*, *Salinger*, and *New Era*, arguing against the application of the strong presumption that unpublished material can never pass the "fair use" test. After these cases, historians and biographers feared that they could no longer freely quote passages from unpublished letters in their books and that they would be forced to instead paraphrase quotations. The article closed with an analysis of the legislation pending before Congress, an amendment to Section 107 of the Copyright Act. The *EASL Journal* revisited this topic in the Fall / Winter 2010 issue in an article entitled *Harper as Unfair Precedent: Fair Use of Unpublished Works*. In that article, the author argued that publishing industry custom, which even after the 1992 amendment still requires authors to get explicit permission from copyright holders to use unpublished material in their books, should change.

An article from Fall 1993 tackled another question of particular concern to publishers—whether a person who committed a crime could reap financial rewards by publishing a book about that crime. In 1991, in *Simon & Schuster v. Members of the New York State Crime Victims' Board et al.*, the U.S. Supreme Court declared unconstitutional New York's 1977 "Son of Sam" law. This article, entitled *Son of "Son of Sam": Crime Still Doesn't Pay (Royalties),* examined the Supreme Court decision and then analyzed the viability of New York's second try at a statute, which became effective July 24, 1992.

Next, an article entitled *Copyright Renewal and Termination in 1995* illustrated the ongoing significance of the topic of termination to the publishing community. An article with a philosophical bent that was also published in the Winter 1995, issue entitled *Is "Literary Property" an Oxymoron?,* discussed an author's right to use historical facts about someone's life from an autobiography in a historical fiction novel.

In Spring / Summer 1995, the *EASL Journal* published several articles on the topic of restoration of copyright in foreign works that were in the public domain in the U.S., including an analysis of amended Section 104 (A) of the Copyright Act, which put the U.S. in compliance with its foreign treaty obligations under the Uruguay Round Agreement. The 1995 articles entitled *The GATT Copyright Restoration: A Loss of the Public Domain for the Benefit of Trade Policy* and *P.D. or Not P.D. The Question Revisited* were followed by a Winter 2002 piece entitled *Why Is There Copyright Restoration?* Then, the *EASL Journal* once more visited the issue with a Fall / Winter 2010 article on the Tenth Circuit's decision in *Golan v. Holder* upholding Congress' authority to restore foreign copyrights. The article, entitled *Golan v. Holder: The Long Road to Restoration*, speculated that lawyers for the plaintiffs might file a petition for writ of certiorari with the Supreme Court.

By Summer 2000, articles on issues involving the intersection of electronic rights and copyright law first emerged. The initial article, entitled *Tasini v. New York Times: Scourge? Or, Straight Forward Statutory Construction*, discussed this case in which a number of freelance writers sued several major print publishing companies for placing their articles in CD-ROM electronic databases without getting their explicit permission to do so and without negotiating additional compensation. The article looked at the United States District Court for the Southern District of New York's decision in which the publishers won, and then the Second Circuit opinion which reversed in favor of the authors, setting the stage for a U.S. Supreme Court review and, in a sense, foreshadowing future battles over who can exercise electronic rights stemming from print publications. In the Fall / Winter 2001 issue, the *EASL Journal* followed up with an analysis of the U.S. Supreme Court decision in a piece entitled *New York Time*s *v. Tasini—Endangered Databases, or Encouraged Authors?*

While the *EASL Journal* did not publish an article in 2001 on the *Random House v. Rosetta Books* case, a key case on the issue of whether a book publishing contract, which grants the publisher the right to publish an author's work in "book form," included e-book rights, it did feature an intriguing article on e-books technology in the Summer 2001 issue. Entitled *EBooks Standards: Why They Are Essential*, the article provided an overview of early attempts to develop uniform technological standards for e-books (the Association of American Publishers' Open EBook Standards Project), including Digital Rights Management (DRM) technology. The Summer 2001 issue also yielded an article called *Copyright Term Extension Upheld* on this important change to the Copyright Act.

Several articles in 2001 presented contrasting views on the question of whether trademark law could protect copyrighted characters or elements of characters from works no longer protected by copyright. The two pieces entitled *Trademark May Protect Characters No Longer* and *Trademark Protection for 'Identity' Elements of Characters After Copyright Expires* presented a lively debate. In 2001 and 2002, the *Journal* published two articles entitled *Parody as Fair Use: Show Me the Funny (Part 1*), which discussed parody cases and the "fair use" defense up to and including *Campbell v. Acuff-Rose Music, Inc.*, and then followed it up with "*Parody as Fair Use II: The Wind Done Got Away With It*," which focused on *The Wind Done Gone* decision and several issues related to parody and "fair use" which the author thought were ripe for Supreme Court review.

An article entitled *National Geographic Copyright Cases: Lack of Paperwork Can Bite You Decades Later*, published in Fall / Winter 2002, addressed problems arising from the lack of written contracts governing ownership rights to certain articles and photographs created before 1978 and governed by the Copyright Act of 1909.

With the popularity of the Harry Potter franchise at its peak, the *EASL Journal* published an article in Spring 2003 entitled *"Harry Potter and the Order of the Court," Pennsylvania Woman Sanctioned for Bringing Bad Faith Infringement Claims*, examining the case of the unknown author who claimed that J.K. Rowling had infringed her earlier work with Rowling's Harry Potter books.

In Spring of 2003, termination rights again provided the basis for an article entitled *Whose Right Is It Anyway? Captain America Smashed Through to Preserve an Author's Right to Terminate a Copyright Grant Notwithstanding a Retroactive Work for Hire Agreement*. In Fall / Winter 2003, the *Journal* published a thought-provoking article called What to *Watch Out for in a Digital Archive*.

The Fall / Winter 2003 issue also had an article on an unusual lawsuit—a plaintiff who claimed ownership of the Dewey Decimal system sued the Library Hotel in Manhattan, alleging infringement of intellectual property rights. The article entitled *Filings Under Fire: Policing One's Mark Invites Public Opinion* was followed by a short piece in the Spring 2004 issue called *Library Hotel Settles with Owner of Dewey Decimal System*. In *The Da Vinci Code Case Stretched Legal Thinking on What Can Be Protected by Copyright*, the Summer 2006 *EASL Journal* examined whether the use of a non-fiction book's "central theme or architecture" in a work of fiction could be considered copyright infringement

In the Fall / Winter 2006, an author examined the reversion risk inherent in copyrighted works in an article entitled *Copyright as Collateral: Addressing the Reversion Risk*. In that same issue, the important topic of proposed orphan works legislation was covered in a piece, which also included interested parties' comments, called *Copyright Modernization Act of 2006*. This was followed by an article in Summer 2008 on the proposed 2008 legislation entitled *Orphan Works Relief—Pending Copyright Legislation*.

Of course, the *Journal* did not neglect some of the top issues in publishing that are part of our current landscape. In Spring 2009, an article entitled *Landmark Settlement in Author's Guild Google Class Action* appeared and recent 2012 issues published articles entitled *Contract Issues Relating to Electronic Rights in Publishing*, *E-Book Antitrust Suits Against Apple and Book Publishers*, and *Court Approves E-Book Antitrust Consent Decree Against Apple and Book Publishers*.

Hopefully, EASL Section members can look forward to another 25 years of articles falling under the Literary Works and Related Rights Committee's purview and of interest to lawyers serving the publishing community.

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Looking Back to Look Forward: A Music Industry Perspective on the Past 25 Years

By Christine A. Pepe and Keenan Popwell

Introduction

The music industry has certainly faced its share of challenges over the past 25 years, which some may argue began with Napster and continue to this day. The good news, however, is that more and more, we are seeing success stories of content owners and service providers joining forces to deliver content effectively to consumers. While copyright owners continue to fight piracy, music users are increasingly obtaining content through legal channels—even if this means they have to pay for the content or listen to advertising. Perhaps more than ever before, we are witnessing tremendous growth in the number and diversity of Internet and wireless music services. From Pandora and Spotify to Apple and Google's cloud music offerings, consumers armed with their smart phones can have anywhere, anytime access to a growing universe of content. Have technology and the music industry finally come to terms with which each can live? Below, we review some of the important developments influencing the music industry over the past 25 years and conclude that while great strides have been made, numerous challenges still await.

A Glimpse Back in Time

Looking back 25 years brings us to 1988, an exciting time for music. New Wave had emerged as one of the defining genres of the decade, and we experienced the Second British Invasion.[1] In 1988, George Michael's single "Faith" topped the charts.[2] Launched in 1981, MTV revolutionized the music industry with the music video as a medium of expression.[3] At the 1988 MTV Music Video Awards, Australian group INXS was the biggest winner, taking home five awards out of nine nominations.[4] Importantly, 1988 was the first year in which compact discs (CDs) outsold vinyl records.[5] In terms of format, consumers in 1988 were still deciding whether to convert their music collections from analog LPs and 45s to the bright shiny digital objects of the moment: CDs. In view of today's seemingly limitless modes and methods of music delivery, the choices made by a music consumer in 1988 by and large were a matter of taste alone.

In the 1980s, the main piracy concern was the recording of music from the radio or vinyl records onto cassette tapes.[6] This is evidenced by the "Home Taping is Killing Music" campaign utilized by the British Phonographic Industry (BPI) in the 1980s.[7] In the 1990s, the Audio Home Recording Act (AHRA) was enacted to address copyright owners' concerns regarding digital audio tape (DAT) copies of content.[8] Online digital piracy had not yet made its debut. Soon enough, however, the piracy addressed by the BPI and AHRA would seem like a fond memory.

The Rise of the Internet and Netcom "Passive Conduit" Immunity

The 1990s saw the rise of the Internet as a commercial medium, with U.S. users rising from just under two million in 1990 to approximately 100 million in 1999.[9] At this time, the cellular industry was also undergoing its own revolution, shifting from analog to digital networks. In the 1990s, the first digital cellular network emerged—the second generation (2G) system—allowing phones to be smaller and less brick-like.[10] Flash forward to today, and we have the 4G system and "smart phones" that combine computing, connectivity and the functionality of a digital media player, camera and GPS device.

Beginning in the mid-1990s, in the context of Internet Bulletin Board Systems (BBS)[11] and prior to the enactment of the Digital Millennium Copyright Act (DMCA),[12] a body of cases developed that impact whether an "Internet service provider" (ISP) could be held directly liable for copyright infringement. The first of such cases was *Religious Technology Center v. Netcom On-Line Communication Services, Inc., et al.* (*Netcom*), which established in large part the standard for direct liability volition in online cases.[13] In declining to find direct infringement by Netcom, the district court stated: "Netcom's act of designing or implementing a system that automatically and uniformly creates temporary copies of all data sent through it is not unlike that of the owner of a copying machine who lets the public make copies with it."[14] The court further compared Netcom to a phone company and concluded that Netcom was merely a "passive conduit for information."[15]

More recent cases that have relied upon Netcom to reject direct infringement claims based on insufficient volition include *Cartoon Network LLP v. CSC Holdings, Inc.*, *Disney Enterprises, Inc. v. Hotfile Corp.*, and *Fox Broadcasting Co. v. Dish Network, LLC*.[16] These cases involved service providers that were not acting as "mere conduits" within the meaning of the *Netcom* decision, reflecting a judicial trend toward expanding the application of Netcom immunity.

For the most part, courts that have applied *Netcom* have done so in the context of assessing direct infringement of the reproduction and distribution rights—not the display and public performance rights. In *Cartoon Network*, after determining that there was insufficient volition to hold Cablevision directly liable for infringement of the reproduction right, the Second Circuit rejected the defendants' parallel volitional argument with regard to the public performance right, *i.e.*, that there was no direct infringement of the public performance right because the customer, not Cablevision, initiated playback of the recorded content and therefore "performed" or "transmitted" the copyrighted content.[17] In declining to extend *Netcom* to the public performance right, the court concluded that "the definitions that delineate the contours of the reproduction and public performance rights vary in significant ways."[18]

Nonetheless, *Netcom* and its progeny pose challenges for creators and copyright owners, especially in the music industry, where the unauthorized use of music online is a serious problem. As a result, plaintiffs seeking to enforce their rights have no choice but to assert claims for secondary, or contributory, copyright infringement, which is discussed below in the context of peer-to-peer file sharing and the DMCA.

The MP3, P2P Filesharing and Secondary Liability

With the explosion of the Internet, we witnessed the digitization of music through the MP3, a compressed file format. The MP3 changed the music industry forever. With the MP3, each successive copy of the music file is the same quality as its predecessor's copy. As a result, copyright owners had to battle rampant online peer-to-peer (P2P) file sharing of music ripped from CDs. In the late 1990s, as MP3 files spread on the Internet, the BBS was largely replaced by P2P filing sharing networks, such as Napster, Grokster and Kazaa, and ultimately the BitTorrent file sharing model.

The emergence of P2P and BitTorrent systems resulted in a large body of case law that defined the boundaries of contributory copyright infringement. Launched in 1999, Napster was the first prominent P2P file sharing network. In *A&M Records, Inc. v. Napster*, the Ninth Circuit found Napster contributory liable based on Napster's knowing provision of the site and facilities for infringement.[19] Napster's P2P distribution software enabled online piracy on an unprecedented level, with millions of users using its software to transfer perfect digital copies of sound recordings to each other directly via a centralized file name database.[20]

In *Aimster*, another P2P case, the Seventh Circuit found knowledge sufficient for contributory infringement, but did so under a "willful blindness" theory.[21] As the Aimster system used encryption software, the defendants argued that they could not know what was being shared through their service and therefore that they lacked the knowledge required for contributory infringement.[22] Likening the defendants' behavior to a drug trafficker who "s[eeks] to insulate himself from the actual drug transaction so that he c[an] deny knowledge of it," the court determined that the defendants' attempt to shield themselves from knowledge of specific infringement amounted to willful blindness.[23] The Seventh Circuit equated the defendants' willful blindness to constructive knowledge, sufficient to find that the defendants had knowingly and materially contributed to the infringement.[24]

In 2005, in the *Grokster* case, the Supreme Court found a P2P service liable for copyright infringement under a theory of inducement liability.[25] The Court explained that the "staple article-of-commerce" test applied in the 1984 *Sony* case is applicable only where there is no direct evidence of culpable intent to promote infringement.[26] In such cases, the intent to encourage infringement could be inferred from the nature of the product itself, but only if it had no substantial non-infringing use.[27] In *Sony*, the Supreme Court held that Sony was not contributorily liable for its distribution of the Betamax VCR because the device had a substantial non-infringing use, namely time-shifting of television programs, which the Court held was a fair use.[28] In *Grokster*, by contrast, the Court found that there was direct evidence of unlawful intent to actively induce infringement.[29] The *Grokster* court stated, "where evidence goes beyond a product's characteristics or the knowledge that it may be put to infringing uses, and shows statements or actions directed to promoting infringement, *Sony*'s staple-article rule will not preclude liability."[30] Several more recent file sharing cases, *e.g.*, *Arista v.Usenet*, *Arista v. Lime Group*, and *Columbia Pictures v. Fung*, have found Grokster-type inducement infringement on summary judgment.[31]

Litigation in the P2P space continued throughout the decade. The Recording Industry Association of America (RIAA) brought copyright infringement lawsuits against approximately 35,000 individual P2P users from 2003 to 2008.[32] However, the RIAA's P2P litigation campaign was not without its setbacks. In *RIAA v. Verizon*, the D.C. Circuit rejected the use by the RIAA of the DMCA subpoena power to obtain P2P users' identities directly from their ISPs, since those ISPs did not store the infringing material at issue.[33] As a result of the D.C. Circuit's decision, the RIAA was required to proceed via "John Doe" lawsuits against each anonymous swapper, a more burdensome process for the RIAA.[34] The ensuing wave of P2P litigation resulted in case law defining the contours of the right of distribution online. Various courts grappled over whether placing copyrighted digital music files in a shared P2P folder was sufficient to establish copyright infringement of the distribution right.[35] Generally, courts held that P2P file sharing was sufficient to maintain a prima facie case for infringement of the distribution right, but declined to create an exclusive "making available" right.[36]

Despite music copyright owners' victories against P2P services and their users, the 2000s proved to be a trying time for the music industry, with total sales declining from $14.6 billion in 1999, the year of Napster's launch, to $6.3 billion in 2009.[37] Record stores dropped like flies: more than 4,000 closed between the years 2000 and 2010, leaving 1,884 in operation in December 2009.[38] Even the iconic Tower Records fell victim to bankruptcy, closing its last store in 2006.[39] Indeed, the Napster victory in 2001 would prove to be a mere battle in a multi-front war following the digital disruption of the traditional brick-and-mortar music industry. Even the intended prophylactic effect of the RIAA lawsuits on P2P piracy remains unclear, with P2P consulting firm Big Champagne finding that P2P use tripled between 2003 and 2007.[40]

The DMCA and YouTube

In 1998, Congress enacted the DMCA.[41] Specifically, Title II of the DMCA, the "Online Copyright Infringement Liability Limitation Act," creates certain limitations on the liability of ISPs for copyright infringement, referred to as the DMCA "safe harbors."[42] The Section 512 safe harbor requirements were intended to provide strong incentives for ISPs to cooperate with rights holders by offering innocent ISPs protection from liability for user infringement if certain requirements were met.[43] These requirements were designed to weed out bad actors or ISPs acting in bad faith.[44] Although there are four separate safe harbors for ISPs, we focus here on the more frequently litigated safe harbor, Section 512(c), which immunizes an otherwise qualifying ISP from liability for "infringement of copyright by reason of the storage at the direction of a user of material that resides on a system or network controlled or operated by or for the service provider."[45]

In order to qualify for the Section 512(c) safe harbor, a service provider must show, among other requirements, that it does not have actual knowledge that material on its network is infringing, or "awareness or facts or circumstances from which the infringing activity is apparent,"[46] often referred to as "red flag" awareness, and if it did obtain actual knowledge or red flag awareness, that it acted expeditiously to remove, or disable access to, the [infringing] material.[47] Additionally, to qualify for the safe harbor, an ISP must have a registered agent for receiving DMCA takedown notices, and upon receipt of a substantially compliant takedown notice, must "respond[ ] expeditiously to remove, or disable access to, the material that is claimed to be infringing or to be the subject of infringing activity."[48]

In the 2000s, the rise of websites allowing users to upload and share user-generated content (UGC) resulted in a new round of litigation between content owners and ISPs over the scope of Section 512(c)'s safe harbor.[49] Launched in 2005, YouTube was the first UGC website to gain mass appeal and "eyeballs," so much so that it was acquired by Google in 2006, for a stock-for-stock transaction valued at $1.65 billion.[50] UGC is somewhat of a euphemism, and many UGC sites would be better termed user-uploaded content sites, since they allow users to instantly upload all manner of content not "generated" by them, including third party copyrighted content, and make any such content accessible to the public without advance authorization. Music creators, record labels and music publishers, along with other copyright owners, witnessed their content appear in large amounts on YouTube and other similar user-uploaded services without authorization.

In 2007, Viacom sued YouTube (and Google) for direct and secondary copyright infringement based on the public performance, display, and reproduction of its audiovisual works on the YouTube website.[51] During the period at issue, YouTube estimated that between 75% and 80% of the content on the site was infringing.[52] The district court nonetheless determined on summary judgment that YouTube was entitled to Section 512(c) safe harbor protection, despite acknowledging that:

> A jury could find that the defendants not only were generally aware of, but welcomed, copyright-infringing material being placed on their website. Such material was attractive to users, whose increased usage enhanced defendants' income from advertisers…[53]

In granting summary judgment, the *Viacom* district court concluded that knowledge and awareness under Section 512(c) did not mean general awareness of copyright infringement, but rather meant knowledge or awareness of specific and identifiable infringements of individual items.[54] On appeal, although affirming the district court's ruling requiring knowledge or awareness of specific and identifiable infringements, the Second Circuit remanded for further fact finding on whether actual knowledge or red flag awareness existed in view of the record evidence.[55] The record contained internal YouTube emails that indicated knowledge or awareness of specific Viacom-owned programs being available on YouTube without authorization.[56]

Around the same time, another important case concerning Section 512(c), *UMG Recordings, Inc. v. Shelter Capital Partners*, was working its way through the court system on the West Coast.[57] Record label Universal Music Group sued Veoh, a UGC site similar to YouTube, for copyright infringement.[58] As in the *Viacom* case, the district court ruled on summary judgment that the defendant was entitled to Section 512(c) protection.[59] The Ninth Circuit affirmed the grant of summary judgment, rejecting UMG's argument that because Veoh hosted a large category of content commonly protected by copyright, namely music videos, knowledge or awareness existed under the DMCA.[60] The Ninth Circuit stated: "if merely hosting material that falls within a category of content capable of copyright protection…was sufficient to impute knowledge to service providers, the §512(c) safe harbor would be rendered a dead letter."[61]

Actual Knowledge vs. Red Flag Awareness?

Given the specificity requirement for both actual knowledge and red flag awareness, the distinction between the two remains less than crystal clear. In *Viacom*, the Second Circuit explained the distinction as follows: "actual" knowledge denotes a subjective belief, while "red flag" awareness refers to an objective, reasonableness standard.[62] In *UMG v. Shelter Capital*, upon UMG's petition for rehearing and rehearing *en banc*, the Ninth Circuit required supplemental briefs on the Second Circuit's distinction between red flag and actual knowledge. The Ninth Circuit has not yet ruled on UMG's petition as of the writing of this article.[63]

As a point of distinction from the *UMG v. Shelter Capital* case, the Second Circuit in *Viacom* considered the role of willful blindness, a theory articulated in the *Aimster* case. Although the court indicated that willful blindness could in some instances constitute red flag awareness, it clarified that under Section 512(m) of the DMCA, willful blindness cannot require "an affirmative duty to monitor" or investigate to be eligible for the safe harbor. The Second Circuit defined "willful blindness" as awareness of a "high probability of the fact in dispute and consciously avoiding confirming that fact."[64] Relying on Section 512(m) of the statute, both the *Viacom* and *UMG* cases reaffirmed the perceived policy under the DMCA that an ISP has no obligation to search for infringing content and that the burden to police copyright infringement lies exclusively with the copyright owner.[65]

In short, the result of these cases is that the burden rests on creators and content owners to monitor the Internet for unauthorized copies of their works and send item-specific takedown notices to the ISP.[66] In practice, where services host large quantities of infringing materials, copyright owners generally have found notice and takedown procedure burdensome and ineffective.[67] Given the scale of the Internet, DMCA notice and takedown as interpreted by the courts amounts to a tedious game of "whac-a-mole" for copyright owners—even if one copy of a work is removed in response to a takedown notice identifying a URL, multiple copies of the same work are uploaded soon after, sometimes immediately.[68] For example, the RIAA has reported that in a one-month period, it sent Google and a linked website in question multiple DMCA takedown notices concerning over 300 separate unauthorized copies of the same musical recording, yet that song remained available on the same linked website.[69]

Beyond the DMCA, copyright owners and ISPs appear to be attempting to work together to find new solutions. In response to pressure from copyright owners, YouTube launched its Content ID System, which checks uploaded videos against a database of audio and video "fingerprints" submitted by copyright owners.[70] The copyright owner gets to decide what happens when there is a match by setting a usage policy—it can elect to block, track, or monetize the video. In 2011, the Center for Copyright Information (CCI) was formed as part of a collaborative effort between U.S. content creators in the movie and music industries and the leading ISPs. CCI grew out of recognition that there are other ways beyond notice and takedown that ISPs and copyright owners can work together. For example, CCI developed the Copyright Alert System (CAS)—a system through which ISPs will pass on to their subscribers notices sent by content owners alleging copyright infringement over P2P networks.[71]

Shifting Business Models and New Legal Challenges

Beginning in 2000 and continuing to the present, online music services shifted from being litigation targets to important sources of revenue for the music industry. The decade began with the industry still litigating against Napster for illegal file sharing, which led to the court-ordered shutdown of the Napster service in 2001.[72] Nearly a decade later, *legitimate* digital downloads eclipsed CD sales for the first time, a process led by Apple and its iPods and iTunes Music Store.[73] The year-to-year growth of download sales has slowed in recent years,[74] and according to some, the once dramatic growth of digital music downloads that began with the introduction of the iPod (2001) and iTunes Music Store (2003) has finally plateaued.[75] Interestingly, the "iTunes Music Store" of the 2000s is now the "iTunes Store," reflecting the status of music as just one of many entertainment properties in an increasingly crowded online marketplace.

Soon after the iTunes Music Store was founded, there was uncertainty over the proper royalty payable by labels for digital downloads under legacy recording contracts, with some artists claiming that the use constituted a license (and thus 50% of net receipts would be payable to the artist) as opposed to a sale (the 10% to 20% royalty rate that labels were typically paying). The dispute resulted in several cases on both coasts, including a lawsuit brought by Eminem's production company, F.B.T. Productions, in which the Ninth Circuit held that, under the contract with Aftermath Records at issue, digital downloads and ringtones were made pursuant to licenses with digital music services and thus compensable at 50%.[76] The court reasoned that the "Masters Licensed" provision of the agreement unambiguously applied and that the transactions between the label and various digital music services, including iTunes, were licenses.[77]

During the 2000s, the number of online music services rose dramatically, ending with approximately 400 licensed services in operation,[78] including a licensed subscription version of Napster, which was eventually acquired by and subsumed within Rhapsody. The on-demand streaming subscription space has also grown rapidly and become increasingly crowded after many years of quiet dominance by subscription-only service Rhapsody.[79] Upon making its U.S. debut in July of 2011, the Swedish on-demand music service Spotify was hailed as the ultimate solution to users' music listening needs.[80] Tapping into the current "any song, anytime, anywhere" mentality of consumers, Spotify offers various tiers of the service, from a free ad-supported version available only on users' computers, to a premium subscription version that is ad-free and available on all user devices, including smart phones.[81] Teaming up with Warner Music Group for its launch, Spotify appears to have the enthusiastic support of the major labels.[82] Nonetheless, certain prominent artists such the Black Keys, Coldplay and Adele appear to be concerned that streaming apps like Spotify may cannibalize their iTunes download sales and have refused to make their releases immediately available on Spotify and other similar services—a process called "windowing."[83]

By the year 2000, the number of music videos played on MTV had already declined drastically from the 1980s.[84] Indeed, the MTV of today, with its reality television shows, bears little resemblance to the MTV of the 1980s with its ground-breaking music videos. In the digital age, music videos appear to have found a new hub in Internet services YouTube and VEVO. According to some, these services are "the MTV of the digital generation."[85] VEVO, which launched in 2009 as a joint venture between Sony Music Entertainment, Universal Music Group and Abu Dhabi Media (with EMI signing on later without an ownership stake), makes its music videos available on various platforms, including mobile platforms and gaming consoles, and on YouTube via an advertising revenue sharing arrangement with Google.[86] In 2012, major label Universal Music Group signed a deal with the National Music Publishers Association (NMPA), which allows indie music publishers and songwriters to share in UMG's advertising revenue generated from VEVO and YouTube music videos.[87]

The terrestrial radio industry faced numerous challenges during the decade, including the economic recessions of 2001 and 2008 and increased competition from the maturing satellite radio industry and emerging Internet radio space. For periods beginning January 1, 2010, the two largest Performing Rights Organizations (PROs) in the U.S., the American Society of Composers, Authors and Publishers (ASCAP) and Broadcast Music, Inc. (BMI), transitioned from flat-dollar deals with the radio industry to percentage of revenue models.[88] During the 2006-2007 period, Sirius and XM, the only two satellite radio providers existing at the time, posted significant financial losses as they continued to build up programming lineups and recruit subscribers.[89] In an effort to cut costs, Sirius and XM merged in 2008, forming SiriusXM Radio.[90] Although the merger seems to have revitalized the satellite industry, satellite radio struggles to stay relevant in the face of increased competition from smart phone radio "apps" and Internet music services.[91] For instance, more and more automobile manufacturers are now embracing platforms with smart phone connectivity and access to Internet radio services such as Pandora, instead of satellite radio.[92]

In late 2011, new legislation aimed at combating online piracy was introduced in both the House and the Senate, respectively the Stop Online Piracy Act (SOPA) and the Protect IP Act (PIPA).[93] This legislation was designed to protect U.S. rights holders and consumers against commercial, largely foreign websites that steal U.S. intellectual property. The ostensible goal of SOPA and PIPA was to stop the flow of money from the U.S. to foreign rogue sites and to protect American jobs, consumers and economic growth. Several provisions of the bills, however, garnered substantial media attention and opposition, especially from the consumer and technology sectors. For example, the provision that required ISPs to engage in Domain Name System (DNS) blocking of websites found in violation of the law resulted in extreme criticism.[94] Companies like Google, Facebook, Twitter and eBay and advocacy groups such as Public Knowledge, the Electronic Frontier Foundation and the Consumer Electronics Association coordinated an Internet opposition campaign that reportedly generated thousands of opposition emails, phone calls and petition signatures. The mainstream press was awash in articles, Op-Eds and editorials opposing the legislation. On January 18, 2012, over 7,000 websites, including Wikipedia and Google, went dark (referred to as the SOPA blackout) in direct opposition to the DNS filtering provisions.[95] In the face of this onslaught and even though the proponents of the bills agreed to set aside the more controversial provisions, congressional support for the legislation crumbled and the bills were rejected.[96]

Other than the high-profile SOPA / PIPA opposition, the licensing and royalty structures for radio services (whether terrestrial, Internet or satellite) may be the most prominent story in the music industry for the next few years. By way of background, the Digital Performance Right in Sound Recordings Act of 1995 created a public performance right for sound recordings in digital audio transmissions—currently, a public performance right in sound recordings does not exist for non-digital, terrestrial broadcasts.[97] In 2007, the Copyright Royalty Board (CRB) set new rates under Section 114 of the Copyright Act, to be paid by eligible Internet webcasters (or non-interactive radio services) for the digital transmission of sound recordings. These newly established royalty rates were based upon usage rather than the revenue of the service. SoundExchange collects and distributes royalties from compulsory licensees, including from Internet radio webcasters like Pandora and satellite radio services like SiriusXM. The statutory rates led to criticism and "sky is falling" prognostications by Internet radio operators.[98] In the end, many radio operators made deals with

SoundExchange and continue to operate to this day.[99] However, in 2012, Internet radio market leader Pandora lobbied for a modification of the "willing buyer, willing seller" standard used by the CRB to set the compulsory royalty rate, claiming that under this standard, it was paying an unreasonable royalty to SoundExchange, particularly in comparison to the lower royalty rate paid by satellite radio service SiriusXM.[100]

In 2012, versions of a new Congressional bill entitled the Internet Radio Fairness Act (IRFA) were introduced in both the House and the Senate.[101] IRFA would move so-called non-interactive online radio services like Pandora from the "willing buyer, willing seller" standard to the one used to determine rates for SiriusXM Radio. Songwriter and publisher groups, such as the U.S. PROs (ASCAP, BMI and SESAC), the NMPA and the Songwriters Guild of America (SGA), voiced strong opposition to the IRFA, and further, stated that any discussion of rate standards needs to address the disparity in license fees paid by webcasters to songwriters and music publishers via the PROs for the public performance of underlying musical works.[102] For example, according to Pandora's 2012 annual report, it paid 49.7% of its revenue in royalties for the digital public performance of sound recordings to labels and performing artists via SoundExchange, but a mere 4.1% of its revenue in royalties to the U.S. PROs.[103] Otherwise stated, from the total amount paid for the performance of sound recordings and underlying musical works, almost 92% of the money paid by Internet radio flows to the record labels and performing artists via SoundExchange, while only 8% is paid to songwriters and publishers via the PROs.[104]

Conclusion: The Way Forward

At the end of 2012, the House Intellectual Property Subcommittee held a hearing broadly entitled "Music Licensing Part One: Legislation in the 112th Congress," ostensibly to discuss the IRFA, but as evidenced by the title, to broadly address other music licensing issues. The hearing was designed to be the first in a series of hearings examining the nuances of music licensing. In addition to rate standard parity in the sound recording compulsory license addressed by the IRFA, the hearing touched upon whether to extend the public performance right in sound recordings to terrestrial radio broadcasts. Twice introduced in Congress in 2007 and 2009, the Performance Rights Act would expand the public performance right in sound recordings to terrestrial radio broadcasts.[105] This legislation has consistently been met with opposition from radio broadcasters who have operated for decades without compensating sound recording copyright owners and now claim to be suffering from declining revenues.

In looking back, the past 25 years were a period of great change for the industry: the commerce of music moved to the Internet, where a reframed set of business practices and copyright jurisprudence slowly began to coalesce. Clearly, music licensing reform is on everyone's mind, and given the complexity of the issues and divergent economic interests, the process of music licensing reform is no easy task. As explained by Judiciary Committee Chairman Bob Goodlatte in his opening statement to the recent 2012 "Music Licensing" hearing, the issues "need to be carefully examined as they all affect both the incentive to create new works for consumers to enjoy and innovation in the music and Internet industries."[106]

It will be interesting to see whether the 113th Congress seriously addresses music licensing reform and whether any of the previously introduced bills resurface in various forms. As for the next 25 years, we believe it is safe to expect more of the same—constant change, that is—as technology continues to develop at a breakneck pace. Whatever happens, we will be watching intently.

Endnotes

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2. *1988 in Music*, WIKIPEDIA, http://en.wikipedia.org/wiki/1988_in_music (last modified Jan. 7, 2013).
3. *Video Made the Radio Star: MTV Changed the Music Industry on August 1, 1981*, CNN (July 31, 1998, 4:00 PM), *available at* http://www.cnn.com/SHOWBIZ/Music/9807/31/encore.mtv/index.html.
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8. Audio Home Recording Act (AHRA), 17 U.S.C. §§ 1003-1007 (1992).
9. *Internet Users*, INDEXMUNDI (2011), http://www.indexmundi.com/united_states/internet-users.html.
10. *History of Mobile Phones*, WIKIPEDIA, http://en.wikipedia.org/wiki/History_of_mobile_phones (last modified Jan. 9, 2013).
11. Prominent during the late 1970s through the mid-1990s, the online BBS, or Bulletin Board System, was one of the first identifiable digital file hosting models. Once logged into the BBS, users could upload and download data, read bulletins, and exchange messages with other users on the message boards. As MP3 files spread on the Internet, the BBS was largely supplanted by peer-to-peer file sharing networks, e.g., Napster, Gnutella, and Kazaa, and ultimately the BitTorrent file sharing model. Currently, so-called cyber lockers, such as Hotfile and RapidShare, are the most prominent online file hosting model.
12. Digital Millennium Copyright Act, Pub. L. No. 105-304, 112 Stat. 2860 (1998) (codified as 17 U.S.C. § 501 et seq.).

13. Religious Tech. Ctr. v. Netcom On-line Commc'n. Servs., Inc., 907 F. Supp. 1361, 1368-69 (N.D. Cal. 1995); *see also* Costar Group, Inc. v. LoopNet, Inc., 373 F.3d 544, 546 (4th Cir. 2004) (relying on *Netcom* direct liability analysis).

14. *Netcom*, 907 F. Supp. at 1369.

15. *Id.* at 1383, fn. 12.

16. *See, e.g.*, Cartoon Network, LP, LLLP v. CSC Holdings, Inc., 536 F.3d 121, 130-33 (2d Cir. 2008); Disney Enterps., Inc. v. Hotfile Corp., 798 F.Supp.2d 1303, 1308-09 (S.D. Fla. 2011); Fox Broad. Co., Inc. v. Dish Network, LLC, No. CV-12-04529 DMG (SHx), 2012 WL 5938563, at * 7-11 (C.D. Cal. Nov. 7, 2012), on appeal to the Ninth Circuit, http://dockets.justia.com/docket/california/cacdce/2:2012cv04529/533147/.

17. *Cartoon Network*, 536 F.3d at 134.

18. *Id.*

19. A&M Records, Inc. v. Napster, 239 F.3d 1004, 1020-22 (9th Cir. 2001).

20. *Id.* at 1011. Napster created the potential for every personal computer with Internet access to become a free online record store, seamlessly networked to other users; *see also Napster's High and Low Notes*, BLOOMBERG BUSINESS WEEK (Aug. 14, 2000), http://www.businessweek.com/2000/00_33/b3694003.htm.

21. In re Aimster Copyright Litigation, 334 F.3d 643, 650 (7th Cir. 2003).

22. *Id.*

23. *Id.* (quoting United States v. Diaz, 864 F.2d 544, 550 (7th Cir. 1988)).

24. *Id.*

25. Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd., 545 U.S. 913, 931-32 (2005).

26. *Grokster*, 545 U.S. at 931-32 (discussing Sony Corp. of Am. v. Universal City Studios, Inc., 464 U.S. 417 (1984)).

27. *Grokster*, 545 U.S. at 932-34.

28. *Sony*, 464 U.S. at 437-38.

29. *Grokster*, 545 U.S. 936-37.

30. *Id.* at 933.

31. *See, e.g.,* Arista Records, LLC v. Usenet.com, Inc., 633 F. Supp. 2d 124, 147-49 (S.D.N.Y. 2009); Arista Records v. Lime Group, LLC, 715 F. Supp. 2d 481, 506 (S.D.N.Y. 2010); Columbia Pictures v. Fung, No. 06-5578, 2009 WL 6355911 (C.D. Cal. Dec. 21, 2009).

32. *See, e.g.*, Capitol Records, Inc., et al. v. Jammie Thomas-Rasset, 692 F.3d 899 (8th Cir. 2012); Sony BMG Music Entm't v. Tenenbaum, 660 F.3d 487 (1st. Cir. 2011), *cert. denied*, 132 S. Ct. 2431 (2012)); Sarah McBride & Ethan Smith, *Music Industry to Abandon Mass Suits*, THE WALL STREET JOURNAL (Dec. 19, 2008), *available at* http://online.wsj.com/article/SB122966038836021137.html.

33. RIAA v. Verizon, 351 F.3d 1229, 1236 (D.C. Cir. 2003); *see also* 17 U.S.C. § 512(h).

34. John Borland, *Court: RIAA Lawsuit Strategy Illegal*, CNET NEWS (Dec. 19, 2003, 10:40 AM), http://news.cnet.com/Court-RIAA-lawsuit-strategy-illegal/2100-1027_3-5129687.html.

35. *See e.g.*, Arista Records, LLC v. Doe 3, 604 F.3d 110, 123 (2nd Cir. 2009)(finding that distribution took place); London-Sire Records, Inc. v. Doe 1, 542 F. Supp. 2d 153, 169 (D. Mass. 2008) ("where the defendant has completed all the necessary steps for a public distribution, the fact-finder may infer that the distribution *actually took place.*"); Atl. Recording Corp. v. Howell, 554 F. Supp. 2d 976, 982-84 (D. Ariz. 2008) (finding that merely making a copy available does not constitute distribution); Sony BMG Music Entm't v. Doe, 2008 U.S. Dist. LEXIS 106088, at *14-15 (E.D.N.C. 2008) (finding that making a copy publicly available is sufficient evidence to allege a distribution infringement claim).

36. London-Sire Records, Inc. v. Doe 1, 542 F. Supp. 2d 153, 176 (D. Mass. 2008); Elektra Entm't Group, Inc. v. Barker, 551 F. Supp. 2d 234, 246-47 (S.D.N.Y. 2008).

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41. 17 U.S.C. §501 et seq.

42. 17 U.S.C. § 512.

43. *See* S. REP. NO. 105-190, at 8, 19, 48 (1998); H.R. REP. NO. 105-796, at 1(Part II)(1998). ("Title II [of the DMCA] preserves strong incentives for service providers and copyright owners to cooperate to detect and deal with copyright infringements that take place in the digital networked environment."), http://thomas.loc.gov/cgi-bin/cpquery/?&dbname=cp105&sid=cp1053oft0&refer=&r_n=hr796.105&item=&&&sel=TOC_230356&.

44. *See* S. REP. NO. 105-190 ("The important intended objective of this standard is to exclude sophisticated `pirate' directories."—which refer Internet users to other selected Internet sites where pirate software, books, movies, and music can be downloaded or transmitted--from the safe harbor.), http://thomas.loc.gov/cgi-bin/cpquery/T?&report=sr190&dbname=105&: ; *see also Fung*, 2009 WL 6355911, at *18 ("[T]he statutory safe harbors are based on passive good faith conduct aimed at operating a legitimate internet business.").

45. 17 U.S.C. § 512(c)(1); 17 U.S.C. § 512(a)-(d).

46. 17 U.S.C. § 512(c)(1)(A)(i)-(ii).

47. *Id.* at § 512(c)(1)(A)(iii).

48. *Id.* at § 512(c)(1)(C), §512(c)(2)-(3).

49. *Id.* at § 512(c).

50. Viacom Int'l, Inc. v. YouTube, Inc., 676 F.3d 19, 28 (2d Cir. 2012); *see also Google buys YouTube for $1.65 billion*, MSNBC (Oct. 10, 2006, 10:47 AM), http://www.msnbc.msn.com/id/15196982/ns/business-us_business/t/google-buys-youtube-billion/.

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The Right of Publicity

By Edward H. Rosenthal and Barry Werbin

This article will briefly examine the body of law known as the "right of publicity," including a description of the development of the law over the past 25 or more years and a discussion of what is likely to come over the next 25 years. The evolution of the public attitude toward celebrities and the right they and others have (or at least claim to have) to control the use of their names, likenesses and persona, coupled with major changes in the ways that products and services are advertised and commerce is conducted, make this a particularly timely topic.

The right of publicity derives from one of the pillars of the right of privacy, which protects individuals from unjustified intrusion into their private lives. Samuel Warren and Louis Brandeis first articulated the right of privacy in an 1890 *Harvard Law Review* article.[1] The other protected aspects of the right of privacy, articulated by the well known expert on torts, William Prosser, include the right to be free from disclosure of embarrassing private facts, intrusion and being portrayed in a false light.[2] While these torts have been subject to considerable discussion and refinement over the years, and limited by First Amendment considerations, their scope and reach has remained relatively static, at least as compared with the rapidly developing law governing the right of publicity.

In theory, the right of publicity is the right to be free from the pain and anguish that would be caused by the unauthorized exploitation of one's persona through commercial appropriation. In its simplest form, looking back to one of the early cases in the area, it is the right to stop a commercial entity from using a person's name or image to sell a product, as with the use of someone's picture on a soap or cereal box,[3] or to prevent a person's name or likeness from being used to sell a product or service in a paid media insertion, such as a printed newspaper advertisement or a broadcast television commercial.

It is important to keep in mind that the right of publicity is entirely a creature of state and common law. There is no federal protection for this right, and states vary widely in terms of the nature and scope of protection. Some states have enacted detailed legislation providing for extremely broad protection for this right; others have no statutory law but have recognized the right of publicity through case law; still other states have no law on the subject at all. Furthermore, there are also significant differences among the states that have established some right of publicity on such critical issues as to whether or not the right of publicity extends after death, what law to apply to a plaintiff domiciled in another state, and how to determine whether a particular use is commercial and therefore implicates the statute.

As many of the most important statutory developments and leading cases come out of New York, we will use our state as a jumping off point for this discussion, describing the reach and limitation for the protection for the right of publicity here, and supplementing this discussion with descriptions of legal developments in other states.

In New York, the right of publicity is governed entirely by statute, specifically, sections 50 and 51 of New York's Civil Rights law. New York prohibits the use of a person's "name, portrait, picture or voice" within the state "for advertising purposes or for the purposes of trade" without prior "written" consent. The "written" consent part of the statute is very important, since this requirement has been strictly interpreted to reject defenses based on verbal or implied consent.

New York cases have held that there is no right of privacy in the state other than as specifically provided by statute. Thus the only aspect of the right of privacy that is recognized in New York is the right to be free from commercial exploitation as such term is defined in the statute. New York does not recognize the other kinds of privacy violations defined by Prosser and described above.

In New York, as in most places that have recognized a right of publicity, there is no need to show consumer or other public confusion. Thus unlike the federal Lanham Act, or state law protections against certain kinds of unfair competition, there is no requirement that anyone believes that the person depicted has endorsed, sponsored or approved the product or service being promoted. In other words, once one steps over the statutory line, one can be in real trouble, irrespective of how the public views the use.

While New York limits the scope of protection to the categories—name, portrait picture or likeness—set forth in the statute, other states provide for far greater protection. In California and in certain other states, the right of publicity has been held to cover one's persona. Some states, such as Indiana, extend statutory protection to "distinctive appearance," "gestures" and "mannerisms."

We begin by looking at the types of uses of a person's identity that have been found to be protected. In terms of "name," courts have found that in order to be actionable, the use does not necessarily have to be of an individual's current full name. A surname can be sufficient, and cases outside of New York have found uses of a single name or nickname to be sufficient (*e.g.*, Cher) as long as that name clearly identifies a specific person. Former names can be actionable (*e.g.*, Kareem Abdul Jabbar stated a claim in California for use of his former name, Lew Alcindor).[4] In terms of "picture" or "portrait," drawings and caricatures can be actionable.[5] Moreover, the use of a "celebrity look-alike" can invoke a right of publicity (Jackie Onassis in New York).[6] Cases in other states have also upheld claims based upon a sound-alike (*e.g.*, Bette Midler[7] and Tom Waits[8] in California).

The question as to what constitutes an illegal use of likeness was explored by New York's highest court in a 1984 case *Cohen v. Herbal Concepts, Inc.*[9] The plaintiff claimed that she and her daughter were in the woods bathing in the nude when a photographer took her picture from the back without consent. That photo was then used in a print advertisement for a cellulite advertisement. After the suit was filed, the defendants moved to dismiss on the ground that the shot of plaintiff's backside was not a use of a likeness protected under the statute. The plaintiff disagreed, and submitted an affidavit stating that she recognized herself and also one from her husband who claimed that when he saw the advertisement he immediately recognized his wife and daughter. The Court of Appeals found that this evidence was sufficient to permit the case to go to a jury on the question as to whether the plaintiffs were recognizable. In thinking about the *Cohen* decision, it is important to keep in mind the underpinnings of the right of publicity described above. The right that is to be protected against commercial exploitation derives from an interest in protecting one's own privacy. Therefore, as long as you recognize yourself being used in an advertisement you might have a claim, even if consumers would not necessarily recognize you.

As noted above, other jurisdictions have gone much further to protect additional aspects of identity. In California, for example, a right to protection of one's persona was recognized in a case in which Vanna White complained about the use of a robot wearing a blond wig and fancy dress turning letters *Wheel of Fortune* style in an advertisement for Samsung products.[10] The dissent by Judge Kozinski to the Ninth Circuit's refusal to grant a motion for rehearing *en banc* is worth reading for its discussion about the importance of permitting references to popular culture in advertising and other media.[11] Similarly, actors George Wendt and John Ratzenberger from the television show *Cheers* were found to state a claim based upon the use in airport bars of robots that supposedly resembled or at least conjured up an association with their characters from the television program.[12] Indiana's theoretical protection for gestures and mannerisms has not been tested, but given that the state's statue offers protection for 100 years, one shudders at the possible scope of that protection. So be careful if you are using the distinctive mannerisms of George Westinghouse or John Muir, both of whom died in 1914.

There is, however, a major limit on the reach of right of publicity law, which comes from the First Amendment. Put in its simplest form, this means that uses of aspects of a person's identity for the type of informational, educational and even entertainment purposes protected by the Constitution cannot be actionable under a right of publicity theory.

Thus, the use of a person's name or picture in a newspaper or in or on the cover of a magazine or book does not infringe that person's right of publicity even if the purpose of the use is to increase sales of the product. Similarly, the right of publicity cannot be used to prevent the use of a person's name or likeness in a motion picture or television documentary or a live stage production (*e.g.*, Janis Joplin was unable to stop a musical based on her life story).[13] Television shows such as entertainment news programs are protected, as are most uses in reality television programming.[14] There is no right of publicity in the use of a real person's name or life story in a fictionalized setting.[15]

The line between illegal commercial uses and protected uses for news purpose can be difficult to draw. In the not so distant past, this seemed to be a much simpler issue. Commercials were commercials and news was news. Newspapers, books and magazines were informational and protected, and no person—celebrity or otherwise—could prevent the use of his or her name in these media, even though those products are produced by commercial entities with a profit motive. Indeed, the protection for these types of media was held to extend well beyond situations where a man's name was used in a news article about him or a woman's photograph was used to illustrate a magazine article about her. The *New York Times* successfully defended a claim brought by a young African-American man who objected to the use of his photograph on the cover of the magazine section to illustrate an article about the emerging black middle class.[16] The New York Court of Appeals rejected his contention that the article should not be protected because it falsely suggested that he endorsed the views expressed in the article and that he had some connection with the type of people described therein, finding that there was a reasonable relationship between the use of the photograph and the subject of the article. Similarly, the courts in New York rejected a claim by a young man depicted in *New York Magazine*'s Best Bets section even though that part of the publication described fashion items available for sale.[17] Courts have also rejected claims by a man with six children in a magazine article describing the enhanced fertility supposedly caused by intake of caffeine (even though the plaintiff contended that caffeine intake was not the reason for his large family),[18] and by a young woman whose photographs were used to illustrate a magazine piece about a teenager who was sexually assaulted while drunk, even though the plaintiff had not suffered any of the experiences graphically described in the article.[19]

There are cases, including in New York, where the line is more difficult to draw. In a case involving a "magazine" that appeared to exist for the primary purpose of selling oversized posters of professional wrestlers, the Second Circuit ruled that a determination of whether a particular use is protected information or is an item of commerce must be made after conducting an examination of the article in question, including the way it is marketed and sold.[20] The court was not willing to find as a matter of law that the use was protected, just because the item of commerce was called a magazine or that it infringed just because it existed to sell posters, which generally are considered items of commerce that would trigger a right of publicity claim. Cases in other circuits have explored whether the use of a recognizable person's name or image in a comic book qualifies as the protected conveyance of information or as an article of commerce.[21] Moreover, the traditional dividing lines have been blurred in situations where information and content are included in an item traditionally used to sell products, such as the successful claim by a surfer who was the subject of an article about the sport in an Abercrombie & Fitch catalog.[22]

Many of the interesting cases come from the world of visual art. Consider, for example, whether an Andy Warhol portrait of Marilyn Monroe or Jackie Kennedy Onassis or a Leroy Neiman painting of an athlete in action is a First Amendment protected conveyance of information or simply an item of commerce. Does it matter how many copies of the work are sold, or what the price point is? Does it matter why the purchaser buys the product: as a work of fine art or as a souvenir of the celebrity? In Missouri, Tiger Woods was unable to stop the sale of a piece of artwork commemorating the Masters that included his image in several poses along with those of a number of other famous golfers.[23] There were only 5,000 copies of the work made, and the court accepted the artist's contention that he was not merely trading off on the popularity of Tiger Woods, but seeking to express a message. By contrast, the owners of the rights to the image of The Three Stooges were successful in convincing a California court that T-shirts that included their image were simply items of commerce intended for people who wanted to commemorate the acting trio, rather than an item sold to those who appreciated the art. Adopting a term from copyright law, the court found that the use of the Three Stooges image was not "transformative."[24] Similarly, a California court held that a card featuring a drawing of Paris Hilton and certain catch phrases associated with her was an item of commerce rather than a protected use.[25]

New media technologies present further challenges for those attempting to come up with a unified understanding of the extent of the limitations to the right of publicity. For example, video games are generally considered to be expressive works entitled to First Amendment protection. Yet the use of avatars or other representations of celebrities in video games is the subject of considerable controversy. In a California case where a celebrity claimed that her likeness had been used as the basis for an avatar in a video game, the court dismissed the suit on the ground that the character in the game was sufficiently transformative.[26] However, another California court held that a musical group did state a claim when the likenesses of its members allegedly were used in a video game.[27] College athletes have filed suits claiming that their likenesses and persona have been used as the basis for players in video games.

Making a determination of the reach and limits of the right of publicity even more difficult is the fact that the law differs dramatically in different jurisdictions. For example, as described above, some states, including New York, do not recognize a post-mortem right at all while others, such as Indiana, purport to protect a broad right of publicity for 100 years after death. Moreover, while many states, including New York, look to the domicile of the deceased individual in order to determine the law to be used to ascertain whether there is a protectable right of publicity, certain other states purport to protect the right of publicity irrespective of the domicile of the deceased claimant. Note that this last development has been the subject of constitutional challenge.[28]

So where are we heading? It is becoming more and more difficult to ascertain the line between conveying information and pursuing a commercial purpose. Many Internet websites do both at the same time. For example, there are sites that provide information of the sort that traditionally would be protected about fashion and cosmetics accompanied by an easy means of allowing readers to purchase the commercial items described or depicted. Special advertising inserts, advertorials, and purchased adjacencies have the potential to further blur the line between content and commerce.[29] Companies may sponsor specially commissioned films or documentaries with a profound commercial interest in the subject matter.[30] Facebook has been sued on the ground that "sponsored stories" placed on its site that include the names and pictures of individuals who have indicated that they "like" a product or service violate publicity rights.[31]

At the same time, celebrities are becoming more and more aggressive in asserting their right to be free from commercial exploitation, perhaps driven less by a desire to protect their own privacy and more out of an interest in maximizing their right to benefit financially from licensing and merchandising opportunities. Thus, the right of publicity, originally designed to protect individuals from the intrusion on their privacy that comes from unauthorized commercial exploitation, has evolved into something more akin to an intellectual property right. Indeed, the rapid expansion of this right coupled with a few large jury verdicts has made some advertisers more wary of right of publicity claims than of the risk of more traditional copyright or trademark infringement claims.

The next 25 years are likely to see more cases struggling to find the line between conveying information and selling products, especially in situations involving the Internet and social media. There also are likely to be further statutory developments, with state legislatures considering whether to expand the scope of this right. New York, for example, has long considered and debated whether a post-mortem right of publicity should be recognized. New York and other jurisdictions will continue to consider whether it truly is in the public interest to extend the scope and reach of the right of publicity as a means of protecting and benefitting celebrities.

If any developments of the last 25 or more years are any indication, the next 25 years are likely to present many fascinating fact situations requiring the application of a rapidly changing area of the law.

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Competitive Balance in Sports: "Peculiar Economics" Over the Last Quarter Century

By Daniel A. Rascher, Ph.D. and Andrew D. Schwarz

In 1984, with its ruling in *Board of Regents*,[1] the Supreme Court recognized that benefits can accrue to society when potential competitors limit their competition in the interest of competitive balance. In the 25-plus years that have followed, a period in which professional sports have become increasingly partnerships of owners and strong players associations, courts and collective bargaining have mapped out boundaries of acceptable collective action geared around creating competitive balance, all in the name of increasing consumer demand for each sport's product. Similarly, college and university sports programs (though not in a bargaining-based partnership with their players) have sought to justify their collective refusal to pay athletes with the same competitive-balance justification (in addition to claims that the existence of college sports requires that "athletes must not be paid"[2]). However, while the last 25 years have seen competitive balance achieve a position of prominence as an accepted pro-competitive justification, the economics of competitive balance are not quite so clear. In fact, in many cases rules which have been adopted with the express aim of achieving competitive balance do not, and others that do may do so at the expense of consumer preferences. Figuring out which rules truly grow consumer demand is an empirical exercise—there is no one-size-fits-all theoretical answer.

The analysis below explores whether and when efforts by sports leagues to promote on the field competitive balance are in the interests of consumers. First, it will be shown that competitive balance can be an important and pro-competitive objective and outcome of sports leagues. Second is a discussion of the history of league efforts to promote competitive balance. Finally, an analysis is undertaken of the efficacy of two of the rules to effect competitive balance, revenue sharing and salary caps.

Importance of Competitive Balance: The Historical Antecedents

The on-field dominance by the New York Yankees baseball teams of the 1920s led to attendance problems for the Yankees and for many of the other Major League Baseball (MLB) teams. Fans grew tired of lopsided, predetermined affairs, instead preferring uncertain outcomes and balance.

In 1964, economist Walter Neale recognized the uniqueness of competitive balance to sports in noting the "peculiar economics of professional sports."[3] Neale's work pointed out that while Coca-Cola wished that Pepsi would disappear, the Yankees benefit financially when the Oakland A's are of high quality. Thus, the nature of competition was infused with a need for cooperation, which has itself been the core of the argument that sports leagues and their franchises constitute a joint venture or perhaps even a single economic entity.[4] In fact, the courts upheld the Commissioner of MLB's decision to nullify certain trades in 1976 based explicitly on the notion that athletic competition would be reduced if allowed to be consummated.[5]

Economic research concurs—an optimal level of competitive balance generally increases demand. Notwithstanding the many measures of competitive balance (e.g., within game, game-to-game, within season, season-to-season), increased expected closeness of a contest increases live gate attendance and television viewership.[6] Researchers show that the closeness of winning percentages and total team quality (measured as the sum of winning percentages) improved television viewership while the score at halftime affected the second half television audience.[7] Live gate attendance is improved as well when, controlling for other factors, the closer games are expected to be (using both winning percentages and betting odds) and the higher the total quality of the two teams.[8] Analysis of MLB from 1901 to 1998 shows that attendance improved with closer standings throughout the season.[9]

Twenty years after Walter Neale's revelation, the Court in *Board of Regents* recognized the special economic forces at work in sports leagues in its decision that the rules of the NCAA (namely the joint sale of television rights), which would otherwise be illegal *per se* in other industries, needed to be evaluated using the rule of reason weighing the net anti- or pro-competitive effect of the rules in question.[10] Fast forward 25 more years to the recent *American Needle* case, where the Supreme Court noted that the interest in maintaining competitive balance among teams is legitimate, but still subject to the rule of reason.[11] Ironically, in both of these cases, though the Supreme Court has enshrined competitive balance as a laudable aim, nevertheless both leagues in question (the NCAA and the National Football League (NFL)) lost.

To be clear, the concept of competitive balance is pro-competitive when it generates a desired product attribute that enhances the product and increases revenues. With many leagues sharing specific revenue streams with players, an optimal level of competitive balance benefits fans, owners, and players. Where room for debate exists is whether a specific rule actually enhances consumer demand (or even promotes competitive balance at all).

The Exogenous Structure of Sports Leagues

The notion that competitive balance is a key part of the product that customers of sports demand, and that it is really unique to sports, is essentially what is referred to as the "peculiar economics of sports."[12] Three critical exogenous facets of sports leagues help explain why rules aimed at enhancing competitive balance can be pro-competitive.

Competitive Balance is Exogenous

As noted above, a unique aspect of sports leagues is that the primary product is typically an event (or season culminating in a championship) between two competitors, often two different companies. Yet, cooperation is needed and (some level of) parity is desired by fans. This cooperation and goal of competitive balance causes the members of leagues to create many rules that affect such balance. These rules are endogenous (e.g., a salary cap), in that they are created internally by league members. Of course this is also the case with individual athlete sports, like golf, tennis, and auto racing. Rules are established to create a competitive environment. However, some aspects of sports leagues are essentially exogenous and occur because of market forces.

Competitive balance itself is exogenous to the extent that it is demanded by the market (or customers) to make the product exciting. Leagues have to figure out how to maintain an optimal level of competitive balance, but that is because the market demands it (not because it has some virtue in and of itself). The nature of needing two teams to play each other (or six or more, for example, to form a minimally suitable league), or (say) 80 golfers to play a tournament, automatically causes consolidation compared with other industries where competition across different firms occurs. For example, Nike and adidas neither need each other for success, nor do they want each other to be formidable competitors. Yet, the Yankees need the A's to be decent enough to create competitive games and seasons.

The Market Demands That the Best Play Against the Best

In many aspects, having a single league or circuit is an exogenous factor that is driven by fans' desires to see the best athletes and teams competing with and against each other in the same game, event, or season. Imagine if Rafael Nadal and Roger Federer did not play against each other because they were on different tennis circuits, Jack Nicklaus did not compete against Arnold Palmer, Jerry Rice did not catch touchdowns from Joe Montana, or Magic Johnson did not compete against Larry Bird. The market demands to see the best play against / with the best. This drives the long-run equilibrium toward single sport leagues.[13] The single sports provider is often a natural outcome of the nature of sports.

Additionally, having many leagues (or many teams within a league) "reduces the absolute quality of play. From the perspective of the fans, some restrictions on the number of leagues in a sport and teams within a league may be socially desirable."[14] Research shows that too many leagues in baseball leads to a decrease in the quality of play overall and a decline in demand.[15] Specifically, "adequate control of external effects associated with quality will be achieved only if there is but one league in a sport."[16] In other words, not only do fans desire to see the best play with / against the best, but multiple leagues would also dilute the existing talent base. In other industries, having lots of providers compete generally leads to more innovative products and lower prices, which benefit customers. Similar to sports, there are joint ventures in other industries (e.g., biotech) that can lead to better products and distribution. Yet in sports, while customers would like lower prices, they do not want diluted talent and do want the best to play against / with each other.

Sports Leagues and Teams Compete with Other Forms of Entertainment

The NFL is the single provider of major professional football in the U.S. Is it a monopolist, whether or not a "natural" one? That question hinges on whether the NFL competes in a larger product (or geographic) market that contains other entities. The jury in *USFL v. NFL* found that the "NFL had willfully acquired or maintained monopoly power in a market consisting of major-league professional football in the United States," but "the NFL had neither monopolized a relevant television submarket nor attempted to do so."[17] While some point to this as a confused verdict, it may in fact reflect the view that while the NFL is the dominant, or only, provider of professional football, by itself that does not mean there is a specific television market in which only the NFL (and erstwhile rivals such as the USFL) compete.[18]

There is burgeoning academic research, and existing industry anecdotal research, showing that sports leagues compete with other forms of sports entertainment, at least with respect to key outputs such as ticket sales, merchandise licensing, and television broadcasts.[19] For example, it has been found that the National Hockey League (NHL) competed with the National Basketball Association (NBA) and minor league hockey.[20] Further, it is estimated that average NHL per game live attendance is 2,800 lower in the "average" city with three other professional sports teams and that inter-sport competition reduces MLB season live attendance by 250,000 (21%) in the "average" baseball city.[21] The 2,800 deficit was nearly 20% for the NHL at the time. It has also been found that the closer two teams are geographically, the lower attendance is at each team relative to two teams that are farther apart.[22]

The same is true across sports. The Washington Wizards of the NBA saw a decline in attendance by 5% (for the two years prior and post-relocation) after the Nationals came to Washington, D.C. in 2005, even though the Wizards improved their record by 40%. The Washington Capitals saw a 9% decline in attendance for the two years pre- and post-move of the Nationals, but this may be related to decreased on-the-ice scoring, or the 2004 NHL work stoppage.[23]

Data from the Association of Luxury Suite Directors shows that luxury suite prices are highly dependent upon the number of other sports facilities available in the marketplace.[24] This provides evidence that there exists competition at the luxury suite level across the major sports leagues in the U.S. The Capitals and Wizards had luxury suite prices that were above the average by 17% for combined NBA / NHL arenas in 2001.[25] In 2007 (after the Nationals had moved to Washington, D.C.), the luxury suite prices were about 5% lower than the same group.[26]

It is perhaps more evident that companies interested in sponsoring sports teams, leagues, events, and athletes can search for sponsorship opportunities in a competitive market. Not only is sponsorship one form of marketing, but there are many franchises, facilities, leagues, and events with whom one can be partnered. There is generally a media frenzy when the media rights to the NFL, for instance, are put into the marketplace. Bidding occurs across the major networks (ABC / ESPN, CBS, NBC, and FOX). A network that does not end up with the rights certainly finds a cost effective way to fill those hours of programming. The NBA, NHL, and MLB appear on many different cable outlets (e.g., TBS, TNT, NBC Sports) as well as the major networks. Historically, when NBC has not won the rights to show NFL games, it has instead focused on the Olympics, horse racing, golf, and tennis. When CBS was the "odd man out" in showing NFL games (prior to regaining an NFL contract in 1998), it offered more college basketball programming.

Even though fans want a single league to watch the best athletes play with / against each other, nevertheless rival sports compete against each other on at least some dimensions. Thus, while it is in each league's interest to maximize its revenues by enhancing consumer demand for each sport (and thus competitive balance is a sought-after outcome), the revenue-maximizing level of competitive balance is not an equilibrium that would occur on its own. Therefore, unlike in other industries, in sports rules are needed to maintain competitive balance, such as salary caps, revenue sharing (to be discussed below), and limits to the number of teams in a league. Attempts to break up the nationwide professional leagues to achieve competitive balance through competition will not necessarily be socially beneficial unless fans (i.e., consumers) feel that ultimately the question of who is best is decided on the field.[27]

The Rules That Sports Leagues Use to Maintain Competitive Balance

In response to this need, sports leagues have developed numerous rules to maintain competitive balance (e.g., salary caps, revenue sharing, amateur draft, no-cash trades, and the reserve clause or player restrictions). Here, we focus on the history and economics of two rules that are most often heralded as the solution to competitive balance problems, salary caps and revenue sharing.

Team Salary Caps and Floors

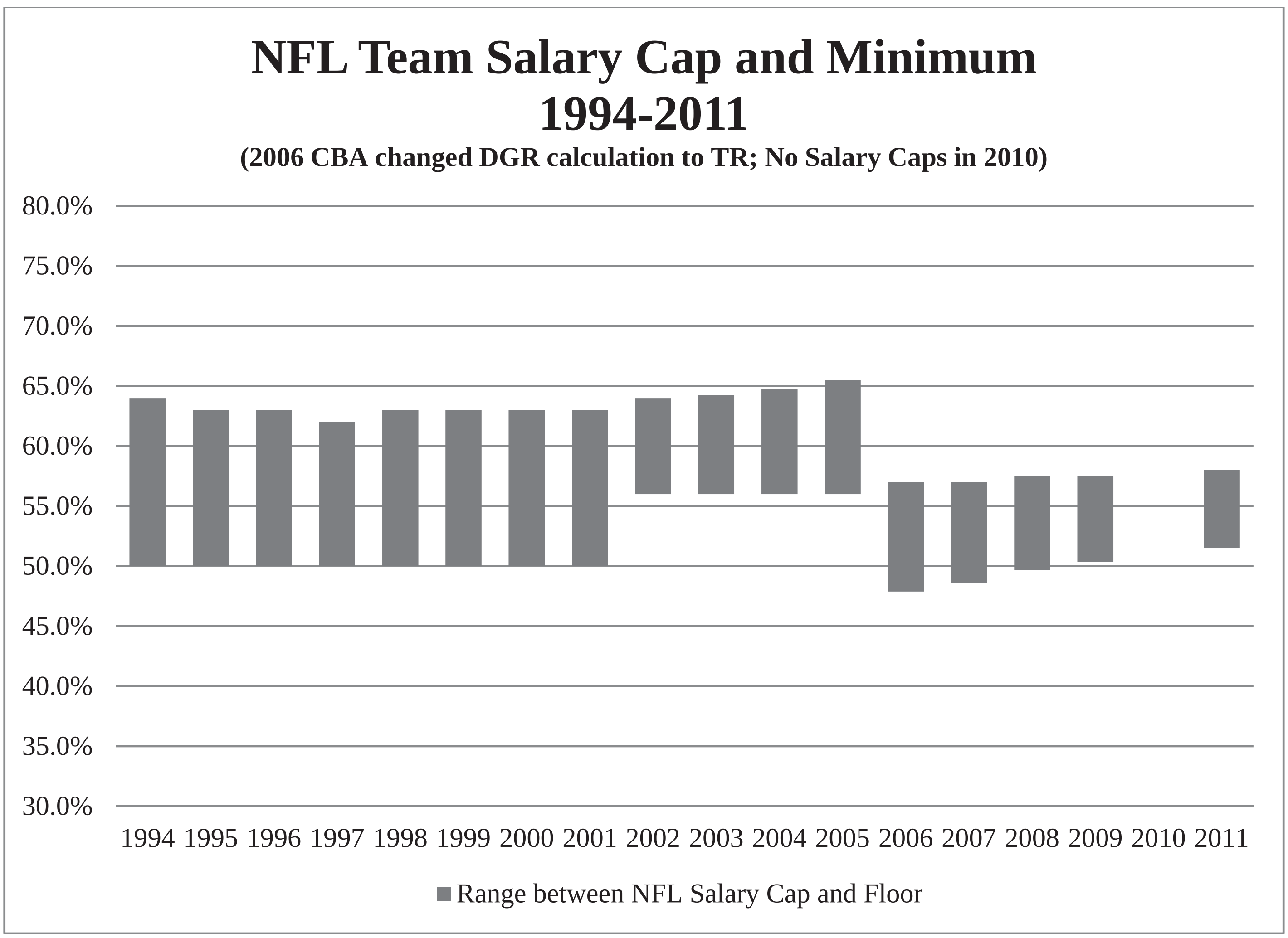
In response to concerns about free agency, professional sports leagues and their union counterparts have agreed upon maximum aggregate payroll limits (known as salary caps) for each team, on the theory that without such caps, large-market teams (or those owned by win-maximizing owners) might "overspend" and destroy competitive balance. Analogously, some leagues have also added a salary floor, i.e., a minimum aggregate payroll for each team. Although much less commonly discussed in the general sports media, salary floors are far more important for ensuring competitive balance than are salary caps (or revenue sharing, which is discussed below). This is because it is often privately optimal for small market teams to spend less than their large-market counterparts, even if those teams are subsidized through revenue sharing. A salary floor ensures that teams spend shared money on talent, rather than pocketing it as profit. In the NFL, for instance, player salaries have long been guaranteed to exceed 50 percent of the revenues[28] of each team, but this was not always the case.

In 1987, immediately after the end of a failed players' strike that resulted in the league and players operating without a collective bargaining agreement, the National Football League Players Association (NFLPA) sued the NFL over rules limiting free agency as being anticompetitive.[29] The case, *Powell v. NFL*,[30] was initially a victory for the players, but was then overturned by the Eighth Circuit Court of Appeals, which found that although the collective bargaining agreement had expired, the existence of the NFLPA as a union provided the NFL with immunity from antitrust.[31] In response, the NFLPA decertified itself as a union and sued again, this time with Freeman McNeil as the plaintiff.[32] When this case (and a follow-up class action led by Reggie White[33]) went the players' way, the ultimate settlement led to a re-certification of the NFLPA and a collective bargaining agreement that allowed free agency.[34] At the same time, the parties recognized the possibility that free agency might harm competitive balance, and so the new collective bargaining agreement included a salary cap and a salary floor to ensure that all teams' payrolls fell within a common range.

Thus, in the NFL, the salary floor has existed since the same 1993 collective bargaining agreement (CBA) that also ushered in the more famous salary cap. Article XXIV of that CBA ("Guaranteed League-Wide Salary, Salary Cap and Minimum Team Salary") set up formulaic rules for both the cap and the floor.[35] The salary cap for each season is a function of the upcoming season's expected average league revenue. Per the 1993 agreement, the salary cap rules attempted to limit each team's total player salaries to approximately 63% of the average team's defined gross revenues (DGR), while it could not go below 50% of DGR.[36] This 1993 agreement was renewed several time until a new CBA was signed for the 2006 season, in which the floor was set to 84% of the cap, increasing by 1.2 percentage points per year, so that it would have reached 90% by 2011 had the owners not exercised their option to end that CBA as of 2010.[37] After a lockout that threatened to delay the 2011 season, the new CBA set the NFL salary cap at $120,375,000 per team, and the team salary minimum was 89% of that upper bound.[38] The players were also guaranteed a league-wide share no less than 47% of total league revenues.

Salary restrictions that include both caps and floors are the most effective method for maintaining or improving competitive balance, because this forces teams to spend similar amounts on player payrolls. An effect of a binding salary maximum is that it puts a restriction on the average salary of a player, thus decreasing the wage per unit of talent. On the other hand, the salary minimum effectively raises the pay per unit of talent, if the floor is binding. A further result is that revenues for some large market teams may decrease because they are forced to field less talented teams than would otherwise be the case. The opposite may occur for small market teams—namely, the team might produce quality in excess of the optimal level associated with maximum profit for the league. However, the decline in overall league revenues is likely to be smaller than the decrease in salaries, thus increasing profits for each team and the league as a whole.[39] Moreover, competition across sports helps to ensure against extreme degradation in overall quality.

Similarly, salary caps keep the pay of the best players below what a free agent system would pay them. However, team payroll minimums and individual player salary minimums (players earning the league minimum) actually raise some players' salaries above what an open market would pay. In fact, almost 50% of players in the NFL earn the league minimum.[40] If the league were to have moved (via a successful *Brady*[41] lawsuit by the players) to a complete free agent system, some players likely would have gained and some likely would have lost.[42] Further, *if* league revenues are maximized with more competitive balance, and *if* an open system would have led to less balance, then the marginal revenue product (MRP) of



NFL players on average would have likely declined because total revenues would have declined.[43] When MRPs decrease, so does the amount that teams can gain from players, and hence their pay is lower.[44] This is ultimately an empirical question.

It has been suggested that salary caps have been the most successful tool at promoting competitive balance, but they have not been fully applied given all of the exceptions and ways of going above the cap (known as a "soft cap").[45] In the NBA, during the 2010-11 season, it is estimated that only six teams were actually at or below the salary cap.[46] Put another way, the average team payroll in the NBA during 2010-11 season was $67 million, but the salary cap was only $58 million. Even in 2005 in the NFL, with a harder salary cap, nine teams had payrolls above the cap.[47] It has also been shown that payrolls are more balanced in the NFL compared to other major professional leagues and that competitive balance is greater than in other leagues. Salary caps may therefore be sufficient to achieve the goal of equal parity and that revenue sharing has no effect (more on this below).[48] However, for owners who care more about winning than profits, revenue sharing and salary caps have an indeterminate effect, depending on whether sportsmen owners (who want to win, even if winning is not optimally profitable) are in small or large markets.[49]

Team salary minimums help maintain or improve competitive balance. They prevent "free riders" from paying very low payrolls, and making money from shared revenues and the brand in general. Free riding is a problem in the NBA, MLB, and the NFL.[50] The potential for this free-riding is well understood by players, and ensuring a true floor was a guiding principle in the NFLPA's 2011 negotiations:

> We cannot have teams like KC spend only 67% of the cap like they did in 2009," Saints quarterback Drew Brees wrote in an e-mail to his teammates. "It doesn't matter how high the cap is if they are only going to spend that much. So with a minimum in place, it requires all teams to be at or above that minimum. More money in players' pockets.[51]

Revenue Sharing

Another key tool in leagues' searches for competitive balance is revenue sharing, which involves the sharing of pooled revenues disproportionately to the source of those revenues. Typically, league-wide television contracts are shared equally among all teams, even when it is well established that certain teams drive far more consumer demand than others.

Such revenue sharing has been part of the fabric of the NFL since the first NFL national television contract was negotiated in 1962.[52] While revenue sharing prevents the lowest revenue-generating teams from becoming insolvent, it also causes a "free rider" problem in which a team may enhance profits by fielding relatively less talented players to keep costs down, while reaping large profits from sharing revenues with the rest of the league.

Revenue sharing has the following effects: First, it lowers the wage paid to players. Revenue sharing decreases the incentive to outbid other teams for a talented player, given that part of the financial return on that player will be shared with the league. If a team determines that a certain wide receiver is worth $10 million to the team because that is how much that player can generate in extra revenues (due to increased winning leading to higher attendance, merchandise, and concessions sales), then normally that team would be willing to pay up to $10 million to hire that player.[53] Yet, if the team had to share its revenue, say 40% of the gross gains in revenue, then the player would only be worth $6 million once the sharing is netted out. In this case, the team would not bid as high for the player, therefore lowering his salary.

The key driver of this result is that only revenues are shared among owners, and not both revenues and costs. Taken to the extreme, if 100% of revenues were shared, an owner would never reap the rewards of signing a better player, and the labor market for talent would dry up. In *Silverman*,[54] Judge Sotomayor recognized this effect, noting that it was not simply a harmless exchange of dollars between owners, and prevented the owners from unilaterally imposing revenue sharing rules without the consent of the players association. Of course, owners only have to share their revenues, and not their wins and Super Bowl rings. Thus, to the extent that owners care about winning above and beyond their ability to generate profits, *and* are willing to make less money (or even lose it) in order to win, then they might be willing to pay more for players than they are "worth" in terms of MRP.

Second, the effect that revenue sharing has on competitive balance is currently under debate. The popular notion is that small-market teams will use the net excess revenue that they receive from large-market teams, through the national media and licensing contracts and through gate sharing, to improve the quality of their teams. In *Bulls II*,[55] the NBA's justification for its restriction of Bulls broadcasts was the need to maintain competitive balance.

However, it has been theorized that in equilibrium, an athlete will play for the team for which he or she generates the most revenue, regardless of who owns the rights to that revenue.[56] Under this theory, small market teams without a mandatory salary minimum will simply pocket their portions of shared revenue as profit, leaving unsolved the "small-market problem" which plagues some sports. If small-market teams are currently choosing the optimal talent level, a transfer of cash will, by itself, provide no incentive for investments in individually sub-optimally high levels of quality. In fact, most owners have enough access to capital to increase their payrolls substantially. Yet, they choose to remain at some level that they have determined makes the most sense for them. Getting an extra $10 million from the league office does not change anything—they should put it to wherever it is most valuable.[57] Revenue sharing along with a salary cap may make the middle more like the top, but the lower third may remain persistent (and profitable) cellar-dwellers. Hence the importance, as discussed above, of combining a salary floor with any revenue sharing arrangement.

This is not merely a theoretical concern. Numerous popular press articles detailed how MLB teams that were recipients of luxury tax (similar to revenue sharing) and revenue sharing money were pocketing the money instead of spending it on players to improve the talent of the team.[58] For instance, a year after MLB's luxury tax / revenue sharing plan was implemented, the Milwaukee Brewers received the most revenue sharing money (about $8.2 million), but also lowered its payroll from about $50 million to $40 million. In other words, the team may have directly used the money to purchase better players, but simply lowered the base payroll to $32 million, so adding the $8 million brought it up to $40 million.[59]

However, research shows that revenue sharing can improve competitive balance, especially if some owners care about winning.[60] A non-disputed finding is that revenue sharing can prevent some clubs from folding, which would, of course, have an effect on competitive balance.[61] This may be its most important effect, because it keeps teams from folding.

As the incentive to pay players declines, thereby causing decreased player salaries, a third effect of revenue sharing is that profits increase. This is so because of the decline in player costs combined with (in theory) little or no change in player distribution and hence revenues.

Fourth, both the revenue-sharing and salary-cap rules create some perverse incentives for owners to generate revenue from sources, such as stadium revenues, that are excluded from revenue sharing. An owner may invest in stadium improvements simply because he or she gets to keep all of the return on that investment, as opposed to investing in a new team logo from which any new revenues from national merchandising would be shared with the rest of the league. One example from the NFL is luxury suites, which remained outside of the revenue sharing / salary cap structure until the most recent CBA. This fact was one driver in the race to build new football facilities with posh and plentiful luxury suites. The new CBA in the NFL applies the salary cap to all revenues, with additional supplemental revenue sharing among owners. The players want the small market teams to have enough funds to meet the team payroll minimum. Counting a broader range of revenue sources in the revenue sharing (and salary cap) formula seems to be a trend in major U.S. sports.

Whether a Rule Enhances Consumer Demand Is an Empirical Question

The issue of whether the rules that leagues use to maintain competitive balance are pro- or anti-competitive is not only important, but grounded in empirical economics—testing of how these rules impact markets is necessary in many antitrust lawsuits involving sports leagues, sanctioning bodies, athletes, suppliers, and buyers. Economic analysis plays an important role in understanding the special structure and economic forces inherent in sports, and in analyzing the competitiveness of league conduct. Allegations of wrongdoing need to be viewed through the correct economic prism before a proper evaluation can occur. This analysis requires an understanding of the exogenous factors inherent in sports leagues, and the rules that leagues use to affect competitive balance.

As to high switching costs, a positive consumption network externality, fans' desire to see the very best athletes compete against each other, high fixed costs coupled with low marginal costs, and non-rival production, society may benefit from a single sport provider. To be sure, competitive balance matters and an optimal degree of parity is a desired product outcome.

Moreover, the economic factors that sports leagues control, e.g., revenue sharing and team salary restrictions, may superficially appear to be anti-competitive, but may instead promote competitive balance, and hence be pro-competitive. On the other hand, restrictions designed to address competitive balance may merely lower average cost without improving competitive balance, and may have unintended side effects as teams' and leagues' incentives diverge. Policy decisions made without the proper understanding of the economics of sports leagues may prove to be detrimental to consumer welfare.

The Future of Competitive Balance: The Next Quarter Century

One aspect of the NFL's efforts to achieve competitive balance is a scheduling method called unbalanced scheduling, where teams that do well in a given season are matched against better competition in the following year. This allows for more marquee match-ups and has the worst performing teams play each other more often, providing those teams' fans with the hope of winning more games. In contrast, for the portion of the college football season in the control of individual schools, college football usually does the opposite—powerhouse schools pay weaker teams to offer themselves up as sacrificial lambs.[62] In large part, this is a function of perverse incentives in college football's current post-season, where losses, even to quality opponents, are punished much more than "cupcake" wins.

However, as the Bowl Championship Series (BCS) system evolves into a post-season playoff (starting in 2014 with a four-team playoff but widely believed to eventually grow to eight teams), college football may finally recognize the benefits of more in-game competitive balance and schedule better non-conference games. At the same time, the college game also seems to slowly be recognizing that many of the rules it claims serve the interest of competitive balance do not. NCAA President Mark Emmert has advocated an increase in the collectively decided wage cap imposed on all schools, despite protests from many claiming that smaller schools would be unable to compete for talent if the price of that talent were to rise as much as $2,000 per year. Emmert's response has been to make explicit the obvious: those small schools already do not compete with the big schools and the scholarship limits have nothing to do with creating that sort of competitive balance.[63]

The NFL has led the charge in its focus on competitive balance, but the other major sports are catching up. In the next five to 10 years, MLB should see improved competitive balance, because revenue sharing recipients will find it more difficult to avoid using their additional funds to improve their on-the-field product, and large market clubs will be exempt from being recipients of revenue sharing money. MLB owners and players alike recognize the need to grow baseball's fan base, both domestically and internationally. The Industry Growth Fund coming from luxury taxes will help, as will the growth of the Australian Baseball League and domestic leagues in other countries. The World Baseball Classic should help speed up the growth of baseball worldwide, which will position MLB as the premier league for a new generation of fans.[64] These issues, while relatively uncontroversial, will be a focus in future CBAs.

The need for competitive balance will only be enhanced as sports increasingly compete against each other for domestic and international viewership. Increasingly soccer, especially the English Premier League, is programmed against major American sports as networks without football or basketball (especially new cable channels dedicated solely to sports) look for new ways to attract viewers to live sports. At the same time, the growing international popularity of American sports will likely lead to overseas expansion, with perhaps the NBA having multiple teams in Europe within the next two decades.[65] As sports across the globe are pitted against each other for viewers and fans, each league will likely emphasize those rules that enhance consumer demand for its sport, and efforts to optimize competitive balance will be in the forefront of that movement.

Endnotes

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4. *See* Michael A. Flynn & Richard J. Gilbert, *The Analysis of Professional Sports Leagues as Joint Ventures*, 111 The Econ. J. F27, F44-45 (2001).
5. Finley & Co., Inc. v. Kuhn, 569 F.2d 527, 538 (7th Cir. 1978), *cert. denied*, 439 U.S. 876 (1978).
6. Rodney Fort describes the various measures of competitive balance. He also notes that the NFL has had the most balance over the years and attributes at least some of that to salary caps. Rodney Fort, *Competitive Balance in North American Professional Sports, in* Handbook of Sports Economic Research 190, 190-206 (John Fizel ed., 2006).
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10. *NCAA*, 468 U.S. 85, 102 (1984).
11. American Needle, Inc. v. National Football League, 130 S. Ct. 2201, 2216-17 (2010).
12. *See* Neale, *supra* note 3.
13. For a discussion of single sport leagues see Paul C. Weiler, et al., Sports and the Law: Text, Cases, and Problems, 743 (4th ed. 2011).
14. Gerald Scully, The Market Structure of Sports 23 (University of Chicago Press 1995).
15. Michael E. Canes, *The Social Benefits of Restrictions on Team Quality, in* Government and the Sports Business 81, 95 (Roger G. Noll ed., 1974). In the same book, Roger Noll noted that average quality of play was likely higher when there are fewer teams, but also it was unknown how important that was to fans (as opposed to close competitions). *Id.* at 412.
16. *Id.* at 95.
17. United States Football League, et al. v. Nat'l Football League, et al., 842 F.2d 1335, 1341 (2d Cir. 1988).
18. Or as was noted that much more economic research is needed to determine the degree and type of competition that exist across sports franchises (whether in the same sport or different sports). *See* Kenneth Lehn & Michael Sykuta, *Antitrust and Franchise Relocation in Professional Sports: An Economic Analysis of the Raiders Case*, 42 Antitrust Bull. 541, 563 (1997).
19. This is in contrast with key inputs, such as players or coaches where a given professional league is rarely a substitute for another as a potential employer for a highly skilled athlete. *See Brady v. Nat'l Football League*, 640 F.3d 785 (8th Cir. 2011) for the idea of each league as a monopsonist or single buyer in a labor market. With respect to venues (where the same has been argued successfully, see *Raiders I*) and other elements of professional sports marketing, it is often hard to see who is buying and who is selling. The discussion about who is a buyer and who is a seller is similar to the relatively new research on two-sided markets that was spawned by the credit card lawsuits. Jean-Charles Rochet & Jean Tirole, *Cooperation Among Competitors: Some Economics of Payment Card Associations*, 33 RAND J. of Econ. 549 (2002). Using that context, the NFL is a two-sided market that brings together fans and apparel makers, charging both of them (and adding some valuable IP to up the ante). Similarly, the NFL is a two-sided market bringing together fans, sponsors, and facilities and charging each of them access to the other. (Some facilities pay more to teams than they receive and others the opposite). The same holds true in the NCAA, where schools provide educational services as well as other compensation (such as housing allowances) in exchange for

players playing sports and the question of who is buying and who is selling (or if both parties are doing both) can be a difficult one to answer.

20. Daniel A. Rascher, Matthew T. Brown, Mark S. Nagel & Chad D. McEvoy, *Where Did National Hockey League Fans Go During the 2004-2005 Lockout? An Analysis of Economic Competition Between Leagues*, 5 Int'l J. Sport Mgmt.& Marketing, 183, 192 (2009). Using the natural experiment of the NHL lockout in 2004, the research analyzed what happened to NBA franchises and minor hockey league franchises in terms of attendance. The NBA saw an increase in attendance of approximately 3.2%, while the minor hockey leagues saw increases ranging from 0% to 6%. The analysis controlled for other factors and looked at the years prior to and post-lockout.

21. Roger G. Noll, *Attendance and Price Setting*, *in* Government and the Sports Business 115, 124,150 (Roger G. Noll ed., 1974). Noll defines this as a city with a metropolitan population of 3.5 million and 3 other professional sports teams.

22. Jason A. Winfree, Jill J. McCluskey, Ron C. Mittelhammer, & Rodney Fort, *Location and Attendance in Major League Baseball*, 36 Applied Economics 2117, 2117–2124 (2004) (The study used a travel-cost model to analyze the attendance impacts on MLB of the closest substitute MLB team. The study also found that when a new team moves into the area of an existing team, there is an additional initial reduction in attendance for the incumbent team. The authors found that each mile closer an MLB team moved from the sample average translated to 1,544 fewer attendees for the year, or nearly $47,000 in ticket revenue losses. Winfree et al., *Location and attendance in major league baseball*, 36 Applied Economics 2117, 2117 (2004). This is consistent with Rascher, Brown, Nagel, and McEvoy, who found that NFL teams lose about 2% of local revenues, all else equal, for each additional major professional sports team that is located in its metropolitan area. *See* Daniel Rascher, Matthew T. Brown, Chad E. McEvoy, & Mark S. Nagel, *Financial Risk Management: The Role of a New Stadium in Minimizing the Variation in Franchise Revenues*, 13 J. of Sports Econ. 431 (2012).

23. While the 2004 work stoppage may be a cause of this decline, average attendance at NHL games during the season after the lockout was up by 2.5% compared with the year before the lockout. Moreover, the rest of the NHL experienced this increase in attendance while also raising prices by 2.5%. In contrast, the Capitals lowered ticket prices by 9% during the two years after the NHL lockout compared with the previous two years and still experienced a decline when the Nationals came to Washington. SportsEconomics, LLC, Consulting report prepared for SVSE entitled *The Effects on SVSE and the City of San Jose from The Oakland Athletics Relocating to San Jose*, 12 (Dec. 11, 2009).

24. Stephen L. Shapiro, Tim DeSchriver & Daniel Rascher, *Factors Affecting the Price of Luxury Suites in Major North American Sports Facilities*, 26 J. of Sport Mgmt. 249, 249 (2012).

25. Effects, *supra* note 23.

26. *Id.* Of course, as with all such natural experiments, this decline may be driven, at least in part, by other factors.

27. In some sports, such as international soccer and American college sports, regional leagues have been successful despite the tendency for fans to want a single league of best-against-best. European soccer leagues have managed this through the use of the Champions League, while college sports has relied on its post-season (i.e., the BCS for football and "March Madness" for basketball, as well as inter-conference (inter-league) play).

28. With the definition of revenue adjusted based on the collective bargaining process.

29. Kevin G. Quinn, *Getting to the 2011-2020 National Football League Collective Bargaining Agreement*, 7 Int'l J. of Sport Fin. 141, 145 (2012).

30. Marvin Powell, et al. v. National Football League, et al., 930 F.2d 1293 (8th Cir. 1989).

31. *See* Quinn, *supra* note 29.

32. McNeil, et al. v. Nat'l Football League, 790 F. Supp. 871 (D. Minn. 1992).

33. White v. Nat'l Football League, 585 F.3d 1129,1134 (8th Cir. 2009).

34. *See* Quinn, *supra* note 29, at 146.

35. *See* Collective Bargaining Agreement Between the NFL Management Council and The NFL Players Association, 50-91 (1996), *available at* http://www.vanderbilt.edu/econ/faculty/Vrooman/CBA_Amended_2006.pdf; *see also* Scott McPhee, *First Down, Goal to Go*, 17 Loy. L.A. Ent. L. Rev. 449, 457-58 (1997), *available at* http://digitalcommons.lmu.edu/cgi/viewcontent.cgi?article=1338&context=elr.

36. DGR was an NFL term of art that included most NFL national revenue but excluded certain local revenues, such as luxury suite revenues.

37. John Vrooman, *Theory of the Perfect Game: Competitive Balance in Monopoly Sports Leagues*, 34 Rev. of Indus. Org. 5, 11 (2009), *available at* http://www.vanderbilt.edu/econ/faculty/Vrooman/vrooman-rio-sports-special.pdf.

38. Gary Myers, *NFL Collective Bargaining Agreement Includes No Opt-Out, New Revenue Split, Salary Cap, Rookie Deals*, N.Y. Daily News (July 26, 2011, 4:00 AM), *available at* http://articles.nydailynews.com/2011-07-26/sports/29834365_1_salary-cap-nfl-teams-contracts.

39. Daniel Rascher, *A Model of a Professional Sports League*, 3 Int'l Advances in the Econ. of Sport 327, 327-28 (1997).

40. Adam Schefter, Chris Mortensen, John Clayton & Andrew Brandt, *NFLPA Still Discussing Proposed Deal*, ESPN (July 23, 2011 11:49 AM), *available at* http://espn.go.com/nfl/story/_/id/6793054/nfl-lockout-nflpa-work-weekend-sources-say.

41. Brady v. Nat'l Football League, 644 F.3d 661 (8th Cir. 2011).

42. This may have prevented the class from being certified, given that some players would have benefited from free agency and others may have been harmed.

43. Marginal Revenue Product is the term economists use for the additional revenue that is earned when one more unit of labor is used/employed. Essentially, it measures how much more output is created (e.g., tickets, merchandise, etc. sold) when a "better" player is hired, then converted to revenues when those units of output are sold.

44. Some of the literature shows that league revenues are maximized when large markets have better teams because the incremental gain in revenue from winning is higher in larger markets compared with smaller markets. *See generally* Rodney Fort & James Quirk, *Cross-subsidization, Incentives, and Outcomes in Professional Team Sports Leagues*, 33 J. of Econ. Lit. 1265 (1995).

45. *Id.*

46. Email from Tom Ziller, NBA writer for SB Nation, to author (Jul. 29, 2011) (on file with author).

47. Michael Leeds, *Salary Caps and Luxury Taxes in Professional Sports Leagues*, *in* 2 The Business of Sports: Economics Perspectives on Sport, 181, 191 (Brad R. Humphreys & Dennis R. Howard eds., 2008).

48. Roger Noll, *The Economics of Sports Leagues in* Law of Professional and Amateur Sports (Gary A. Uberstine, ed. 1988).

49. Rascher, *supra* note 39, at 47.

50. Daniel Rascher, Matthew Brown, Mark Nagel, & Chad McEvoy, *Free Ride, Take it Easy: An Empirical Analysis of Adverse Incentives Caused by Revenue Sharing*, 25 J. Sports Mgmt. 373, 386 (2011).

51. Mike Florio, Per-Team Spending Minimum Doesn't Apply Until 2013, NBC Sports (July 30, 2011, 1:57 AM), http://profootballtalk.nbcsports.com/2011/07/30/per-team-spending-minimum-doesnt-apply-until-2013/.

52. Such coordination is explicitly exempted from antitrust scrutiny by the Sports Broadcasting Act of 1961, revised in 1968. Sports Broadcasting Act, 15 U.S.C. § 1291.

53. The economics are bit more complicated than just this, as the team would need to determine what the MRP is of the next best player available in order to figure out which player was the better value.

54. Silverman v. Major League Baseball Player Relations Comm., Inc., 880 F. Supp. 246, 253 (S.D.N.Y. 1995), *aff'd*, 67 F.3d 1054 (2d Cir. 1995).

55. Chicago Prof'l Sports Ltd. P'ship v. Nat'l Basketball Ass'n, 95 F.3d 593, 603 (7th Cir. 1996).

56. This is an application of the Coase Theorem known as the Invariance Principle first put forth by Simon Rottenberg in 1956 (prior to Coase's seminal article). *See* Simon Rottenberg, *The Baseball Players' Labor Market*, 64 J. of Pol. Econ., 242 (1956); *see also* Ronald H. Coase, *The Problem of Social Cost*, 3 J. Law & Econ. 1 (1960).

57. MLB, for instance, mandates that owners use their revenue sharing money to improve their clubs, usually by investing more in player development or putting more money toward free agents. However, an owner can simply lower player payroll by $10 million, for example, and then apply the new $10 million received through revenue sharing toward player payroll, effectively doing nothing to improve the team.

58. *See*, Andrew Zimbalist, *The Gold in Baseball's Diamond*, N.Y. Times (Sept. 30, 2003), *available at* http://www.nytimes.com/2003/09/30/opinion/the-gold-in-baseball-s-diamond.html.

59. Similar articles have appeared about the Pittsburgh Pirates and Tampa Bay Rays making a profit from the revenue sharing, while maintaining a very low payroll (the lowest in MLB at times). *See Buried Treasure: Pirates to Make $12.8M Profit This Year*, 152 Sports Bus. Daily 17 (May 2, 2005), http://www.sportsbusinessdaily.com/Daily/Issues/2005/05/Issue-152/Special-Report-Brsbds-10Th-Anniversary/No-Headline.aspx; *see also Pirates made $29.4M in 2007 and 2008*, ESPN (Aug. 23, 2010, 7:46 AM), http://espn.go.com/mlb/conversations/_/id/5484947/pittsburgh-pirates-win-losing-financial-documents-show; Alan Snel, *As Rays Whiff, Front Office Scores*, Tampa Tribune (April 20, 2005), *available at http://www.accessmylibrary.com/article-1G1-131730959/rays-whiff-front-office.html*.

60. *See* Scott E. Atkinson, Linda R. Stanley, & John Tschirhart, *Revenue Sharing as an Incentive in an Agency Problem: An Example from the National Football League*, 19 Rand J. of Econ. 27, 40 (1988); *see also*, John 19: 27-43. Vrooman, *General Theory of Professional Sports Leagues*, 61, S. Econ. J. 971, 975(1995): "A general theory of professional sports leagues," (1995); Daniel S., 61: 971-990. Mason *Revenue Sharing and Agency Problems in Professional Team Sport: The Case of the National Football League*, 11 J. Sport MGMT. 203, 209 (1997); Daniel Rascher, *supra* note 43, at 47.

61. Mohamed El-Hodiri & James Quirk, *The Economic Theory of a Professional Sports League in* Government and the Sports Business 57(R.G. Noll ed., Washington, DC: Brookings Institution 1974); *see also* W.L. Holahan, *The Long Run Effects of Abolishing the Baseball Player Draft-reserve System* 7 J.Legal Stud. 129, 131 (1978); Roger G. Noll, *The Economics of Sports Leagues*, *reprinted in* L.J. of Prof. & Amateur Sports **§** 17.03[4], at 17-20 to 17-28 (Gary A. Uberstine ed. 1988). *Cross-subsidization, incentives, and outcomes in professional team sports leagues*. Journal of Economic Literature, XXXIII, 1265-1299. Linda R. Stanley, *Essays in Applied Microeconomics: Evidence of Non-Profit-Maximizing Firm Owners and Bargaining within the Shadow of the Law* (1985) (unpublished Ph.D. dissertation, University of Wyoming).

62. These games are commonly called "guarantee games" because the smaller team is guaranteed a specific payment for coming to play the stronger team in the stronger team's stadium. Facetiously, the terms is also used because the powerhouse team is virtually guaranteed to win.

63. *See* Seth Wickersham, *Emmert: "Don't Lie. Don't Steal."* ESPN (Dec. 2, 2011, 9:44 AM), http://espn.go.com/college-sports/story/_/id/7303903/ncaa-president-mark-emmert-makes-rulebook-changes-offers-stipends-athletes ("So you don't see it affecting teams in the mid-majors, by virtue of the fact that some athletes will go to a team that can afford that stipend? [Emmert:] I don't think any of the Butler kids were recruited by, you know, by Kansas."); *see also* Andy Schwarz , *Excuses, Not Reasons: 13 Myths About (Not) Paying College Athletes*, Santa Clara Sports L. Symposium (2010), *available at* https://docs.google.com/file/d/0BxM4wdtZ5uI-OWFhNGE1ZTItZTllYS00YmVlLTk0YmItYTM4ZDUyY2MwNTE2/edit?hl=en_US.

64. Mark S. Nagel et al., *The World Baseball Classic, in* Sport and Public Policy: Social, Political, and Economic Perspectives 215, 229 (Charles Santo & Gerard Mildner eds., 2010).

65. William Bieglow, *Stern: Multiple BA Teams in Europe in 20 Years* (Jan. 5, 2013), *available at* http://www.breitbart.com/Breitbart-Sports/2013/01/05/Stern-NBA-Europe ("I think so…I think multiple NBA international teams. Twenty years from now? For sure. In Europe. No place else. In other places I think you'll see the NBA name on leagues and other places with marketing and basketball support, but not part of the NBA as we now know it.").

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Exit Stage Left, Enter Stage Right: Theater Trends Over the Past 25 Years

By Jason Baruch with Diane Krausz, and the research and writing committee of Adam Rosen, Merlyne Jean-Louis, Ning Yu Wu and Jeffrey Lawhorn

We have been asked to review legal and business trends in the commercial theater industry over the past 25 years, and to make some predictions of where the industry is heading in the 25 years to come. In undertaking this exercise, we find a few specific areas particularly worthy of discussion.

Theatrical productions are much more expensive to mount and maintain than they were in 1988, and the industry has had to adjust over the years to survive. Liberalization of fundraising practices has helped, as have ongoing negotiations with the various unions representing the many trades employed by Broadway producers and theaters, and also adjustments in the way royalty participants—such as the dramatists and directors—are paid. Producers recently have started embracing new technologies and marketing strategies to reach a wider target audience more efficiently, and they are experimenting with new pricing paradigms. Producers also are mitigating risk by engaging celebrities in both creative and non-creative roles, and they are adapting to the live stage readily recognizable properties, such as films and music catalogues, in greater numbers. We see these trends of tapping new sources of income, controlling costs and mitigating risks as continuing, hopefully with the result of continuing to both grow and maintain the accessibility and relevance of live theater for the next 25 years and beyond.

Fundraising

Although the costs of professionally producing live theater have skyrocketed over the past 25 years, in some ways raising money for these productions has become less burdensome, at least from the legal and regulatory viewpoints.

When a producer sells an equity interest in a show to a passive investor, that producer is selling a security interest, requiring compliance with applicable state and federal securities laws. Most producers try to fit their theatrical offerings into the federal Regulation D, Rule 506 "safe harbor" exemptions from registration for private offerings, which were promulgated in 1982 under Section 4(2) of the Securities Act of 1933. Prior to 1996, all of the states also had broad authority—through their respective "blue sky" law—to regulate securities offerings with the stated goal of reducing fraud. New York was unique, in that its Arts and Cultural Affairs Law set forth specific rules relating to the syndication of theatrical investments that provided for a full-fledged review of the theatrical documents by New York's Department of Law (similar to the way public offerings are reviewed by the Securities and Exchange Commision (SEC)). This substantive review was a time-consuming and costly burden on commercial producers, a burden that was alleviated in 1996 by the passage of the National Securities Markets Improvements Act (NSMIA). In an effort to lessen the regulatory burden of federal and state securities laws and promote greater uniformity in the patchwork of regulations, NSMIA created a new category of securities known as the "covered security," which would be exempt from state substantive regulation. Offerings made in compliance with Rule 506 (still the most widely used type of offering for commercial theater production entities) were included in that category. The result of NSMIA was that the substantive authority of the states to review and approve a theatrical offering was preempted, although the states may still require notice filings (and the payment of corresponding fees), which apprise them of the existence of offerings in such states. A copy of Form D (required by the SEC) must also be provided once a sale of securities is made in the applicable state.[1] The enactment of NSMIA in 1996 and the preemption of substantive state review was a monumental improvement from the perspective of stage producers, allowing them to offer securities more quickly and efficiently to potential investors.

The theater industry finds itself once again in the midst of an equally groundbreaking moment with the dawn of Title III of the Jumpstart Our Business Startups Act of 2012, also known as the JOBS Act. (Note: see p. 87 for a more in-depth discussion of the JOBS Act.) Due to numerous regulatory hurdles, it has not been feasible to engage in "crowd-funding" (i.e., raising small amounts of money from a large number of people, principally via the Internet) on any widespread basis. The JOBS Act will open the door to this type of funding in the near future. It directs the SEC to create regulations allowing issuers of securities to sell up to $1 million in securities over a 12-month period to any number of investors without registering their offerings with the SEC. These securities will be "covered securities" exempt from state blue-sky regulations. Producers will have to meet a number of reporting and disclosure requirements in order to take advantage of the crowd-funding exemption, such as: the need to raise capital through an intermediary broker registered with the SEC or a so-called "funding portal"; capital raised in such a manner will be capped at $1 million; no individual may contribute more than 5% to 10% of his or her annual income or net worth; and each investor's contribution will be capped at $1 million. In addition, given the current costs of producing a Broadway play or musical, or even an Off-Broadway musical, the $1 million cap does not make crowd-funding practical for raising all of the required capital for most major commercial productions. However, for certain Off-Broadway plays, developmental productions, cast or concept albums and other less costly stage ventures, the JOBS Act will no doubt be seen as a boon to producers and a leap forward in the liberalization of fundraising techniques.

Perhaps more important, the JOBS Act directs the SEC to change its rules to end the long-standing "general solicitation and general advertising" ban under Rule 506 by which (i) only "accredited" (i.e., relatively wealthy) investors may purchase the securities being sold and (ii) the issuer must take "reasonable steps to verify" that all purchasers are in fact accredited according to the methods specified by the SEC. Currently, the SEC rules only permit a producer to solicit investors with whom he or she (or a co-producer or finder) has a "substantive pre-existing relationship," which makes it challenging to connect with a large swath of individuals and inhibits the flow of capital into theater projects. After the rules are changed, however, it is anticipated that theatrical producers will be able to advertise their investment opportunities on generally accessible websites, through e-mail blasts and via other technologies in an effort to reach previously unreachable investors around the world.[2] The JOBS Act set an initial July 4, 2012 deadline for the SEC to end the advertising ban and promulgate other related rules but, as of December 31, 2012, no changes were made. As with all regulatory matters, the devil will be in the details of the new rules, but the lifting of the general solicitation ban is highly anticipated and has the potential to be very useful to theatrical producers in the near future.[3]

Unions

The relationship between the stage producers and the various unions that represent everyone from the directors and choreographers (Stage Directors and Choreographers Society or SDC) to the actors (Actor's Equity Association or AEA) to the musicians (American Federation of Musicians, Local 802 or AF of M) to the designers (United Scenic Artists or USA) and others (such as the International Alliance of Theatrical Stage Employees or IATSE) has been a rocky one over the past 25 years. Although the dramatists are not unionized (they are considered independent contractors rather than employees), almost everyone else is, from stagehands and hairstylists to the press agents and stage managers. There is a constant pressure on the part of producers to keep costs under control, counterbalanced by the steady insistence by the unions to maintain benefits or improve the conditions of their members. The result has been a number of high-profile strikes over the last 25 years, including the most recent 2003 AF of M strike and the 2007 IATSE (stagehands) strike.

Through prior negotiations, each Broadway theater had a pre-determined allocation of "seats" or places for musicians in the orchestra depending on the size of the venue. Producers had to either engage the minimum required number of musicians or pay the union the difference between the pre-determined sum and the actual amount hired if the producers elected to populate their productions with fewer musicians. In 2003, the producers sought to eliminate this requirement. They claimed that it created unnecessary expenses and interfered with creative freedom of the producers and dramatists (particularly for certain shows, like "rock and roll" musicals and chamber—or so-called "vest-pocket" musicals—which had lower budgets and / or did not require a full orchestra). The AF of M authorized a strike by its members, which lasted four days, after which the parties reached an agreement to reduce the number of musicians required at the largest Broadway theaters from 24 to 25 to 18 to 19. Although this provided a temporary resolution, we predict this issue will resurface as producers continue to relentlessly pursue cost-cutting measures, and as new technologies further evolve, such as "virtual orchestras," which attempt to replicate the fullness of an orchestra with far fewer players and more sophisticated musical reproduction equipment.

Similarly, in 2007, IATSE authorized a strike after three months of failing negotiations with The League of American Theaters and Producers (the League), which acts as the trade association and bargaining agent with all the unions representing the interests of Broadway producers and theater owners. As the League demanded more flexibility in hiring stagehands based on actual production needs as determined by the creative nature of the specific presentation, IATSE insisted on strict adherence to the pre-negotiated number of stagehands required to be employed for each production at a specific theater (e.g., the number of carpenters, electricians and property personnel) and the pre-set limitations on the activities that could be performed by each union member. Ultimately a settlement was reached, although the terms were not disclosed to the public. By the time an agreement was reached, the strike had dragged on for 19 days and had cost the city nearly $40 million in lost revenue.

AEA, the union that represents actors, has over the years shown willingness to compromise in recognition of the economic realities of commercial theater producing. For example, when producers started complaining that the cost of engaging Equity performers for certain touring productions was becoming prohibitively expensive, AEA understood the real consequences in the prospect of producers electing to shift to non-Equity tours and avoiding the hiring of its Union members altogether. In the late 1990s, AEA officials began creating special contracts with non-League producers, which allowed shows to go on the road with union actors performing at rates lower than established union rates. In 2004, Equity worked with the League on an experimental initiative to adapt a new tier system for touring productions that allowed League producers to compensate union actors based on various factors, such as production scales and projected revenues. In 2009, Equity also adopted its Showcase Codes in order to provide an increase in the budgets of Equity showcase productions and more flexibility in their rehearsal time. The new experimental workshop "lab" contract, of which producers are now starting to avail themselves, is the latest example of how the AEA has strived to accommodate the needs of the producers with greater flexibility while protecting the interests of its members.

Obviously, the give-and-take between producers and unions will continue over the next 25 years as producers struggle to rein in ever rising costs, and the unions continue to press to retain the hardfought past benefits they have obtained for their members, as well as to improve working and economic conditions going forward.

Royalties

At the same time that producers continue to seek concessions from the theater unions to deal with the economic realities of producing live commercial theater, they have worked also with the creators of the stage productions to devise new ways to pay royalties with sophisticated economically based formulas. In a commercial production generally, there are percentage royalty participants, which include the dramatists, underlying rights owners (if the stage production is based on an underlying property), director and, often, choreographers, designers and others, including the producers themselves and regional or developmental theaters.[4]

Dramatists used to be paid on the basis of gross weekly box office receipts (GWBOR) (i.e., the ticket sales receipts less certain pre-established deductions such as taxes and credit card commissions). In the 1980s the industry saw a shift away from paying royalty participants on the basis of GWBOR and towards so-called "royalty pools," by which a fixed portion (typically about 35% to 40%) of the weekly net operating profits of the production (i.e., gross receipts less weekly running costs) are set aside for the royalty participants. In this shift from GWBOR to WNOP, for example, dramatists who might have once received 4.5% of GWBOR increasing to 6% of GWBOR post-recoupment (e.g., $31,500 pre-recoupment on a show with a GWBOR of $700,000, irrespective of running costs) would instead receive 15.6% of WNOP increasing to 17.8% of WNOP post-recoupment (e.g., $23,400 pre-recoupment on a show with a GWBOR of $700,000 and running expenses of $550,000), with some minimum weekly guaranteed payment to the dramatists (e.g., $6,000) regardless of the total amount of WNOP generated that week and WNOP aggregated and averaged in royalty "cycles" of four to five weeks. The underpinning of royalty pools is that royalties paid to royalty participants should be tied to the economic health of a show, and the economic health of a show cannot be measured accurately by examining only the box office receipts; rather one needs to look at the weekly profits, if any, after all operating costs are taken into account. For instance, *Spiderman: Turn Off the Dark* on Broadway could gross $1,000,000 in a given week, a source of pride for most producers, but not necessarily for the producers of *Spiderman*, which is reported to have weekly expenses in excess of $1,000,000; so a gross of $1,000,000 in this instance would result in no or negative weekly profit. Paying on the basis of WNOP allows stage productions to remain open longer under most circumstances which, producers argue, ultimately inures to the benefit of the royalty participants even though in a given week they might receive less than they would have were they to be paid on GWBOR.

A more recent innovation to the royalty structure is the implementation of "amortization" factors, which allows producers to deduct "off the top," and repay to their investors, a negotiated portion of the WNOP *before* the royalty participants' shares of the pool are calculated. A typical amortization amount would be 2% of the production costs each week (e.g., $160,000 each week if the production costs of a musical are $8,000,000). This expedites recoupment of the investors. It also reduces the available pool of WNOP allocated to the pool participants on a weekly basis. Note however that the amount that would have been paid to the royalty participants but for the amortization mechanism is *deferred* and not *waived*, meaning the royalty participants are entitled to be repaid these amounts (plus some premium over and above the deferred amounts) from various sources including net profits of the production company (if the production recoups) and, in the case of the dramatists, from the subsidiary rights income that otherwise would have been paid to the production entity.[5]

Most sophisticated investors (or indeed anyone who bothers to read articles about investing in Broadway shows) are aware that the vast majority of shows on Broadway do not recoup and this fact, producers argue, makes it increasingly difficult to raise money and, in turn, increasingly more appropriate to negotiate adjustments in the royalty structure. As the last 25 years saw the advent of royalty pools and the introduction of amortization, should economic realities make fundraising a challenge in the next 25 years, we predict further innovations and adjustments to the methods by which royalties are calculated and paid. This includes further attempts on the part of producers to make the royalty participants more like "partners" who sacrifice some of their income up front in the hopes of a greater payday should the production recoup its costs.[6]

Marketing and Sales

Theater productions are somewhat unique in that they need to brand themselves very quickly—and usually from a position of zero public recognition—before the funds raised run dry. Historically, producers relied on a campaign based on print advertising (such as an advertisement in the *New York Times*), radio spots and billboards—blunt instruments in today's age of technology driven and targeting marketing.

One of the most radical trends in theatrical advertising and marketing over the past 25 years has been the dramatically escalating use of the Internet to generate advance buzz and (producers hope) increased ticket sales. Most significantly, nearly half (48.1%) of all theatergoers currently report "Personal Recommendation or Friend's Facebook / Twitter / MySpace post" as the number one motivating factor in selecting a Broadway show.[7] Traditional word-of-mouth has been increasingly replaced with virtual word of mouth.

While print advertising, including expensive *New York Times* advertisements, would have represented an enormous portion of any Broadway show advertising budget 25 years ago, more shows are now relying heavily on electronic and new media marketing. Productions will likely expend advertising dollars on Google and Facebook ads in addition to employing innovative social media marketing strategies with the hope of creating a virtual community and active online presence, generating buzz and the invaluable word of mouth that is essential for a Broadway show to succeed. Word of mouth must translate into ticket sales rapidly in order for a show to survive during the initial weeks or months following its opening, but producers are attempting also to create significant anticipation for a show well in advance of its landing on the Great White Way via online activity. The producers hope that by increasing word of mouth and excitement in the potential fan base through contests, videos, and other interactive features, the fans will feel part of the show community and purchase tickets when they become available. As it remains a relatively new phenomenon, however, the jury is still out as to whether more gimmicky social media marketing efforts will actually translate into ticket sales.[8] The producers of *Next to Normal* generated press through their "live tweet" performance. The number of the production's Twitter followers increased from 145,000 to 550,000 throughout the serialized performance.[9] The show's advertising budget was relatively modest and use of "free" word of mouth techniques like generating Twitter buzz may have translated into ticket sales. The show eventually recouped its initial capitalization. Other recent social media efforts such as *End of the Rainbow*'s Instagram meet-up event at the Belasco Theater, Ken Davenport's *Godspell* blog (along with an associated website encouraging fans to upload "My Godspell Memory" videos), (note: see p. 88 of this issue of the *EASL Journal*) and a Facebook contest for tickets to a secret *Jesus Christ Superstar* concert performance may have been less successful in translating directly into sales, as those shows did not turn a profit during their Broadway runs.

One issue may be the ongoing challenge of convincing young people, the most active participants in these online activities, to purchase tickets. These online efforts often include ticket giveaways and discounts, but current older theatergoers still remain less likely to use these interactive sites and, for now, they remain the primary Broadway ticket purchasing audience. Almost two-thirds of the Broadway audience during the most recent Broadway season was older than 35; the largest age group of attendees is from 50 to 64. As young theatergoers age into more regular purchasers, these web-based activities may be valuable investments in cultivating the next generation of Broadway theatergoers.

Some other electronic forms of marketing include e-blasts to marketing lists, and free-to-join online discount "clubs," such as the Playbill Club and TheaterMania.com, often implementing carefully designed discounted pricing strategies for shows. More theatergoers now report that receiving an email about the show as a stronger motivating selection factor than receiving a flyer or postcard in the mail, and approximately 9% cite receiving or finding a discount as the primary motivator. Currently, critics' reviews in a newspaper, magazine, or on television collectively account for motivating show selection in 34% of theatergoers, although as Internet sources continue to become more relevant, such reviews may become less essential.

Not all marketing initiatives of recent years are electronic or Internet-related. More Broadway producers have been turning to market research firms and focus groups, including post-show surveys, to develop the best advertising plan for their shows. Some producers continue to attempt to attract younger, less affluent, and minority audiences to Broadway. Many commercial producers, continuing a trend that made a splash with *Rent*, offer same-day box office rush ticket discount policies to make Broadway more affordable to students and others who cannot afford the full ticket price, with the goal of spreading word-of-mouth among younger people.

The exact reverse strategy to sophisticated discounting programs is so-called "premium" priced seating for the more popular shows (it started with Mel Brooks' musical, *The Producers*), allowing producers to sell the best-located seats at a price substantially higher (sometimes as much as 300%) as the regularly priced top-price tickets. The implementation of so-called "dynamic pricing" has allowed producers to be much more nimble at capitalizing on the peak moments and surviving the leaner times of the season.

Broadway shows are also more reliant than ever before on recognizable "brands" for marketing purposes. Other than the continued embrace of revivals—revisiting old shows that have proven popular in the past—the most obvious manifestation of this is the increasing reliance onstage adaptations of well-known film properties or music catalogues. A glance at the ABC directory ads in The *New York Times* quickly reveals the sheer quantity of Broadway musicals based on film properties. The reasons are no mystery: about a quarter of all theatergoers report that their primary motivating factor for seeing such musicals is that they saw the movie.

Equally worthy of note, however, is the widespread and proliferating use of celebrity stars and, more recently, star producers. The use of film stars has been prevalent in Broadway productions for years. Of the roughly 900 productions that opened on Broadway between January 1, 1987 and December 31, 2012, approximately 160 (or 18%) featured at least one actor who had a prominent role in a film at some point in his or her career. From 1987 to 2000, about 50 productions featured at least one film star, but during the next 12 years, from 2000 to 2012, the number of productions featuring a film star almost tripled.[10] Recently, celebrities such as Oprah Winfrey, Bette Midler and Elton John have lent their names as "producers" in order to increase the publicity of Broadway musicals.

Other ways that producers have created broader awareness of their properties, and thus increasing the recognition of their brand, include incorporation of Broadway shows in other media, such as television and DVDs. Broadway shows have recently found members of their casts through auditions produced and taped as part of reality television series, including *Grease* and *Legally Blonde* (this trend has been more frequently used, to greater success, in London theater). Producers have also partnered with media companies, including Broadway Worldwide and NCM Fathom, to create television broadcasts, DVDs, and movie theater screenings (cinecasts) of filmed Broadway performances (*Jekyll & Hyde*, *Memphis*, *Legally Blonde*, and *Rent*). Film versions of certain long-running Broadway shows, such as *Chicago* and *Rock of Ages*, have contributed additional box office income to already successful New York productions (notwithstanding the fact that the *Rock of Ages* film was a failure at the box office). In addition to generating new revenue streams for the production, these techniques may also contribute to generating interest in a show outside of New York, which may translate into Broadway ticket sales to tourists—if the show is still running—or ticket sales for touring productions and increased licensing interest.

In sum, over the past 25 years Broadway producers have used new technology, as well as marketing strategies from other disciplines, to support the advertising and marketing efforts of their shows, attempting to broaden the traditional theatergoing audience and develop a new generation of theatergoers. As online technology rapidly changes, developments will certainly lead to new and exciting innovations in methods of nurturing Broadway audiences and selling tickets.

Conclusion

Producers are constantly seeking to tap new sources of fundraising. The enactment of NSMIA substantially liberalized the requirements for raising money for commercial productions, and the JOBS Act will provide a further step in that direction, increasing the pool of available investors and cutting through much of the red tape inherent in the process. Producers and unions will continue to strive for that happy medium that makes engaging all of the necessary staff economically feasible while protecting the rights of those employees. Producers will continue to fine-tune methods for paying royalties to the royalty participants, some of which may include positioning their royalty participants more like investing partners, reducing their weekly royalties in favor of a bigger pay-off should the show become successful. Producers will also tap into new technologies for marketing and promoting their projects and continue to experiment with dynamic pricing. In addition, they will continue to mitigate risk by relying are pre-branded properties such as well-known films, music catalogues, and celebrity actors and producers. Many people have predicted the demise of Broadway theater specifically, and indeed, the relevance of live theater in general, for decades, now more so than ever with the ever-increasing array of alternative entertainments such as video games, on-demand streaming and downloading of content and social media websites. Thus far, the naysayers have been proven wrong. In fact, Broadway annual grosses continue to increase to record-breaking levels. As long as producers and the creative talent and labor unions can continue to adapt, innovate and remain flexible in the face of an always-shifting landscape, we predict a bright future for the live commercial stage in the 25 years to come.

Endnotes

1. Another recent innovation is the introduction of electronic filing of Form D, mandatory since March 16, 2009, theoretically making it easier for issuers to file and amend, and also creating an interactive and searchable database on the SEC's website of recent filings. Prior to 2008, all Form D filings were submitted on paper and essentially buried in a morass of filing paperwork that could not be readily accessed.
2. The perils of relying on investors with whom the producer has no pre-existing relationship at all were recently manifest in the collapse of a planned Broadway production of *Rebecca* in 2012, when it turned out that an investor living abroad who had committed to contributing millions of dollars toward the production's capitalization did not, in fact, exist.
3. The SEC proposed rules on August 29, 2012. A link to the press release and proposed rules may be found at http://www.sec.gov/news/press/2012/2012-170.htm. See also p. 91 of this *EASL Journal* for a more detailed discussion of the proposed rules.

4. Another trend over the past 25 years is the increasing reliance by commercial producers on not-for-profit theaters to try out material with a commercially "enhanced" developmental production and to reduce / share costs of development. One tradeoff for this reliance is that the regional theaters for their time, effort and risk are entitled to an ongoing royalty from the commercial producers (and, often, a direct participation in the income derived by the dramatists).
5. If a production fails to recoup, then most royalty participants will not be able to recover sums deferred through amortization. Only the dramatists in such circumstances will have the opportunity to "claw-back" some of the remaining deferred amounts out of the subsidiary rights income that the dramatists otherwise would be required to pay the commercial production entity from future exploitations of the property, such as stock and amateur licensing income.
6. We also see further and continuing efforts on the part of directors, who are not copyright owners of the stage production and who typically receive remuneration only in connection with productions actually incorporating their direction, to seek participation in the income of the dramatists to ensure that they, too, are rewarded for the life of the show should their contributions help make the show a financial and durable success.
7. For all statistics regarding audience demographics, please see The Broadway League, The Demographics of the Broadway Audience 2011-2012 (2012). During the 2011-2012 Broadway season, 47% of all tickets were reported to have been purchased online, the largest proportion to date.
8. The flip side to the proliferation of social media and viral marketing is the premature critical drubbing a show can take before it is ready to be reviewed, which negative word of mouth can often kill a show that, in earlier days, could have quietly workshopped out of town outside the bright light of public scrutiny in preparation for its official opening.
9. Andrew Adam Newman, *It's Broadway Gone Viral, With* Next to Normal *via Twitter*, N.Y. Times, Aug. 17, 2009.
10. Analysis by Merlyne Jean-Louis using the Internet Broadway Database (www.ibdb.com).

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Diane Krausz's firm represents individuals, their businesses and careers in the entertainment industry, with an emphasis in theater, film, television, talent representation/negotiation, and intellectual property as well as, merchandising, and spokesperson deals, drafting and negotiating contracts, and the purchase and sale of entertainment-related companies. A graduate of the Wharton School and Fordham Law School, and formerly licensed as a CPA, she has written articles in leading industry publications and been a sought-after guest lecturer at professional seminars, bar associations, and universities. Ms. Krausz currently serves as the Second Vice-Chair of the EASL Executive Committee, as well as its Co-Chair of the Theatre and Performing Arts Committee. *www.DianeKrausz.com*.

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Adam J. Rosen graduated from Yale College (B.A., *cum laude*, 2001), Pace University School of Education (M.S., 2003), and New York University School of Law (J.D., 2006). He currently practices entertainment law in New York City. Adam has also acted as a producer for numerous theater, cabaret, and film projects.

Ning Yu Wu is a trained dancer/singer/actor, who received his J.D. with a concentration in Intellectual Property from University of Dayton School of Law. He holds an MA in Performing Arts/Dance with a concentration in Musical Theatre from American University, MBA from Colorado State University, and a BFA in Dance from Taipei National University of the Arts. He completed Commercial Theatre Institute's (CTI) 16-week program in 2012, and currently serves as General Counsel to a Manhattan-based architecture and interior design firm. He is licensed in both New York and New Jersey, and can be reached at *ningyuwu@gmail.com*.

NEW YORK STATE BAR ASSOCIATION
ENTERTAINMENT, ARTS AND SPORTS LAW
25 YEARS

New York State Bar Association
Entertainment, Arts & Sports Law Section

Annual Meeting

January 22, 2013

Section Chair
Rosemarie Tully, Esq.
Rosemarie Tully, PC
Huntington

Program Co-Chairs

Jayson Aylesworth, Esq.
Sendroff & Baruch, LLP
New York City

Barry Skidelsky, Esq.
New York City

Crowdfunding for Theater and Film Under The Jumpstart Our Business Startups (Jobs) Act of 2012

Moderator:
JASON AYLESWORTH, ESQ.
Sendroff & Baruch, LLP
New York City

Panelists:

DOLLENA CAMPBELL
Independent Producer & Outreach Consultant / Marketing / Social Media
New York City

KEN DAVENPORT
Broadway and Off-Broadway Theater Producer
New York City

GARY M. EMMANUEL, ESQ.
Sichenzia Ross Friedman Ference LLP
New York City

W. WILDER KNIGHT II, ESQ.
Pryor Cashman LLP
New York City

New Business Models in Music and Media

Moderator:
BARRY SKIDELSKY, ESQ.
New York City

Panelists:

JEAN COOK
Director of Programs
Future of Music Coalition
New York City

CHRIS HARRISON, ESQ.
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MICHELE PAGE, ESQ.
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ROSEMARIE TULLY: Hello everyone and welcome. Thank you all for being here today. I am Rosemarie Tully, Chair of the Entertainment, Arts and Sports Law Section. Affectionately known as EASL, E-A-S-L for short.

Welcome to the members of New York State Bar Association, our EASL members, students, guests, members of the public and the press. This is EASL's Annual Meeting and the year of its 25th Anniversary, and I welcome you here.

We get this opportunity once a year to come together as a Section at the Annual Meeting, where we often start by taking care of Section business, electing officers or adjusting by-laws. This year our by-laws are in good shape. Our officers are in the second year of their two-year terms. And the engines of the Section are running very well, as they should.

The news this year is celebration. Celebration of EASL's 25 years as a Section. From humble beginnings as a State Bar Committee, a devoted group of 20 or so entertainment lawyers—headed by our Founding Chair, Mark Jacobson—developed a forum for the exchange of ideas and the sharing of expertise over lunch or dinner. It became a welcoming community for attorneys working in entertainment, arts and sports.

In 1988, the Committee acquired Section status in the State Bar. It has since continued to be a vibrant and welcoming community for those practicing in the field. We are fortunate to have grown in number over the years, an average of a steady 1,700 members annually.

We continue to expand our horizons in the creativity of programs, such as our two-day seminar on Theatre Law, which will be held in April of this year. And we maintain the integrity of our core with regular programming that is familiar to, and valued by our members, such as annual updates with Stan Soocher in May.

More recently, we've added a lifestyle perspective, balancing our events with educational adventures, such as our Sunday afternoon tour of the Whitney Museum held last spring.

We have also found a way to do some good for the public through Pro Bono Clinics. They are organized several times a year by our Pro Bono Steering Committee, Chaired by Elissa Hecker, Kathy Kim, Carol Steinberg and Irina Tarsis. Any member may volunteer, and those that do return time and again to perform this meaningful service.

As we have evolved, online communities for EASL members are developing. Although it has been around for a while, the EASL Listserv is recently gaining some momentum. Our Listserv is a Section service that connects members via a members-only exchange. An EASL member can send out a hypothetical for comment, ask for guidance in a particular area of law, or share timely decisions of interest. Often it is used to solicit articles for the EASL blog or to announce Blog updates. While not for everyone, this is an opt-in, opt-out service that has developed a loyal following among many EASL members.

Continuing into the future, in addition to our internationally subscribed *Journal*, which is published three times a year, EASL has an online Blog that offers entries about current events in the law and the practice. Occasionally, non-member legal scholars are also invited to participate. It's worth the regular read, as there are weekly updates of topical issues of the day. While you have to be approved by our Blog Editor, Elissa Hecker, to post, I invite you to consider contributing to the dialogue.

While we're connecting in the usual fashion with programs, *Journals* and books, and in cyberspace with the Listserve and Blog, we continue to explore ways to connect in person and in real time. Our Membership Committee, Chaired by Jessica Thaler, Ethan Bordman and Rob Thony, is working with our substantive committees to foster social events following CLE programs similar to what was done at our Fall Meeting.

Held at the Cornell Club in mid-November, our topics were focused. There were two panels: Intellectual Property and Bankruptcy, Chaired by Eric Stenshoel and Andy Seiden, and a follow up program on ePublishing with a mock negotiation, Chaired by Judy Bass and Ken Swezey.

While the panels were truly outstanding, the cocktail reception following allowed those present to mingle in a relaxed atmosphere. It was a welcome touch.

Staying with the personal touch for a moment, you should know about our Mentor Program. EASL has been at the forefront of this initiative and it will soon become a practice throughout the Bar Association.

Our Diversity Committee, Chaired by Anne Atkinson and Cheryl Davis, created an opportunity for our members to mentor young or transitioning attorneys in the various disciplines under the EASL umbrella. Any of you who are adjunct professors or full professors know well that we can learn a great deal about the subject matter and ourselves by teaching.

Our Membership Committee suggested the added benefit of folks of a certain age and mindset, not unlike myself, to have the mentoring work both ways, where I as a mentor offer the benefit of my experience in the practice of law and my mentee teaches me about the culture of social media and how to navigate it without making a fool of myself. Sounds like I may be getting the better end of that deal.

We encourage all of you to consider becoming a mentor. You can sign up online and add your name to our list of mentors. You will be asked to commit a minimum of one hour a month for a year. The value of this small effort is priceless.

Speaking of priceless, you can see that our Section has a lot of moving parts, which all together create the EASL experience. None of that happens without the combined efforts of our dedicated Officers and Executive Committee, which is comprised of our individual Committee Chairs and District Representatives. My sincere thanks to each of you. And particularly, to my Vice Chairs, Steve Rodner and Diane Krausz, whose good counsel have been invaluable to me. And to our NYSBA Staff Liaison Beth Gould, who keeps us in line and on time for all of our projects. And finally, we thank you, our members.

With your participation at a program or in a Committee, your comment on the Listserv, your article in the *Journal*, or on the Blog, the new lawyer you're mentoring, you keep us vibrant and meaningful.

You've kept us going for the past 25 years. On this, our 25th Anniversary, we celebrate you. And we look forward to the next 25. So please mark your calendar for Monday, May 6th, as that is the date we will be celebrating EASL's 25th Anniversary in style. We will begin the day with a late morning CLE program, then onto a luncheon roundtable, followed by an afternoon CLE.

Afterwards, it will be cocktails and dinner at the renowned supperclub 54 Below, with a performance by the fabulously funny and talented Jackie Hoffman.

We will have special overnight rates at The Warwick Hotel where the CLE will be held, and some social adventures arranged for the Sunday before for those folks wanting to make a weekend of it.

So after 25 years, we'll learn a little, lunch a little, and have some laughs. Perhaps nothing's really changed.

Thank you all and enjoy the fabulous panels that have been prepared for you today. Our Program Chairs are Jason Aylesworth and Barry Skidelsky, who have once again brought forth topics of great interest and have assembled a wonderful cast of speakers. So thank you both, gentleman. And now Barry has a presentation all the way from Albany.

BARRY SKIDELSKY: That's correct, thanks to a friend of ours, Ben Liebman, we have a letter here from Andrew Cuomo, Governor of the State of New York, dated today, January 22nd, which I'll read:

> Dear friends, it's a pleasure to send greetings and congratulations to the Entertainment, Arts and Sports Law Section of the New York State Bar Association as you celebrate your 25th anniversary.
>
> The time-honored role of our legal community has been to protect and preserve peoples' rights, and the various sections of NYSBA exemplify this tradition upheld by attorneys working in specific areas of law. Members of the Entertainment, Arts and Sports Law Section demonstrate a depth of knowledge in representing a diverse constituency focusing on matters related to media, entertainment, telecommunications, and technology.
>
> The EASL Section is recognized for its efforts to further the professional growth and education of attorneys familiar with the legal complexities of an ever growing business. I applaud your work to advance the interest of your members who serve a population of entertainers, artists, and sports figures known worldwide, and for maintaining the highest standards of responsible jurisprudence.
>
> Congratulations on marking this milestone, and best wishes for a wonderful celebration.

Sincerely,
Andrew M. Cuomo[1]

ROSEMARIE TULLY: Thank you very much. On behalf of EASL, thank you for your hard work in getting this.

As we move along, it is come to the time where we acknowledge some excellence in writing and scholarship. So I would like to bring to the podium our scholarship chairs, Judith Bresler and Rich Garza, and I don't know if Barbara Jaffe is here as well, to present the awards. Thank you.

JUDITH BRESLER: Good afternoon everyone. In memory of Phil Cowan, who is a Former Chair of our Section, who died precipitously, since 2005 we have created a scholarship bearing his name. And we're joined by Broadcast Music Inc. so that it is known as the Phil Cowan Memorial / BMI Scholarship.

The Scholarship each year is awarded to two students who attend a law school that's accredited in New York State, or also Seton Hall and Rutgers University, and up to 10 additional law schools throughout the United States on a rotating basis that are chosen by BMI.

We had some fabulous entries this year, particularly good papers. And it is my pleasure to announce one of the winners, M. Elisabeth Conroy, who wrote the paper, "The Theft of the Herzog Art Collection, The Holocaust in Hungary and The Road to Restitution."[2]

M. Elisabeth Conroy graduated in 2008 with a B.A. in Art History from Syracuse University, and in 2009 with an M.A. in Art Business from Sotheby's Institute of Art. She is currently a J.D. candidate at the Syracuse University College of Law and expects to graduate in May of 2013. M. Elisabeth, please come up.

Congratulations for a fabulous paper. And you will be published in the *Entertainment, Arts and Sports Law Journal*.

RICH GARZA: BMI is very honored to be part of this Scholarship, and it is my honor to announce the second winner. The second winner was written by Danielle Ella Gorman who wrote the paper, "A Red Letter Year, Single Color Trademark Protection in the Fashion Industry."[3]

She graduated in 2010 with a Bachelor of Arts in English, and a Bachelor of Arts in Journalism with honors, from Lehigh University. She is in her third year of law school at Benjamin N. Cardozo with a concentration in IP law. She is also currently serving as the Acquisitions Editor of Cardozo's *Arts and Entertainment Law Journal*. Danielle, please come up and accept your award.

ROSEMARIE TULLY: Moving right along. We have our first panel, which is going to be moderated by, orchestrated by, and all of the above by our Executive Committee member, Jason Aylesworth.

Jason is an Associate at the entertainment law firm of Sendroff and Baruch, LLP, representing producers and creatives in theatre, music, film and television matters. He is the Co-Chair of the Digital Media Committee. He is also one of the Co-Chairs of our 25th Anniversary Committee. And he's the Co-Chair of the Alternative Dispute Resolution Committee. He doesn't sleep. He's also a Co-Chair of the Negotiation Committee of the Dispute Resolution Section.

Jason has been just a stellar individual in the Entertainment, Arts and Sports Law Section. He has put together an amazing panel for you today. I'm sure you will enjoy it very very much. So I give you Jason Aylesworth.

* * *

Crowdfunding for Theater and Film Under The Jumpstart Our Business Startups (Jobs) Act of 2012

JASON AYLESWORTH: Wow. Good afternoon. Before I introduce our panel, I would like to give a little background about the new Act, as well as the format of today's program.

Last spring the Jumpstart Our Business Startups Act was signed into law, requiring the Securities and Exchange Commission to adopt new rules reflecting this law.

Now, this program will cover two specific sections of the JOBS Act, Title 2 and Title 3. Title 2 focuses on access to capital for job creators, more specifically by removing the general advertising and solicitation prohibition from a private placement offering exemption, Rule 506.

Title 3 of the JOBS Act covers crowdfunding. Now, notwithstanding the order from Congress to implement the finalized Rules, right now the SEC released only Proposed Rules for comments back in August for Title 2. And with regard to Title 3, nothing has been introduced yet.

In the first hour, the panelists are going to speak about their roles and their experiences with financing film and theatre offerings. I have a laundry list of questions here prepared for our speakers, but I hope to make the second half of this program more interactive by engaging you, the audience.

This is being recorded live, so if anybody is not here live, they get to hear your actual questions and know what I'm talking about.

One item I will raise briefly in the course of this program is regarding the financing debacle to the cancelled production of *Rebecca*, particularly to the middleman accused of fraud.

The main question to think about throughout this whole program is whether or not crowdfunding is a viable option, even though it will be permissible, and will crowdfunding be advisable.

Let me introduce our panel starting with the attorneys. I was inspired to create this program based on an article co-written by Gary Emmanuel. He's a securities attorney with the firm of Sichenzia Ross Friedman Ference.

Ever since I saw his CLE program about five years ago on reforming the D-electronic filings, he's been an incredible resource for me with any securities issues or questions I've had, not to mention that he's been terrific to chat with about the future of fundraising for theater or film. He's going to go into explicit detail about the JOBS Act and the current rules set forth by the SEC.

The other attorney on our panel, and I must thank Anne Atkinson for this referral, is W. Wilder Knight II. He's actually a producer and an attorney as well. He's produced numerous films and represents production counsel on many pictures. We'll hear his expertise on the legal and practical and producing sides of the financial hurdles of filmmaking.

Our third panelist, and I apologize for not being a gentleman by blatantly ignoring the "ladies first" mantra, Dollena Campbell. She was referred to me by Wilder, and who I believe was her professor at NYU, correct? She's been involved in producing a number of independent films as well as documentaries.

In addition, she has experience working with current crowdfunding resources, and I will go into detail about those current companies, such as Kickstarter and Indiegogo. She also deals with producers as a consultant using social media to reach broader audiences.

Finally, last but not least, my last introduction will be the first to speak. Ken Davenport is an inspirational producer. Not only has he been involved with numerous off-Broadway and Broadway productions, *Altar Boys* being one of my favorites, but he actively writes about the living theatre.

This is going to sound corny, but theatre is about people, and Ken gets this. As the JOBS Act was created to broaden the pool of potential investors, Ken is already ahead of the game by thinking outside of the box to bring more people in to the world of theatre. I've heard his name over the years and I've worked on deals with his company, but this is my first time meeting him in person, and it's a pleasure.

As I mentioned above, Gary Emmanuel was involved with the first crowdfunding theatrical offering, which was Ken's idea, for the Broadway revival of the production of *Godspell*. Ken, would you please share your inspiration, The People of *Godspell*, and your experiences with that production.

KEN DAVENPORT: Sure. Thank you first of all very much for having me. It's quite an honor to be here. I didn't go to law school, so this is making my mother very very happy.

So actually, although that's a bit of a joke, what I love about being an entrepreneur frankly, is I get to think and come up with crazy and wacky ideas, and then I pay people to figure out how to do them for me. And that really was the inspiration of *Godspell*, and The People of Godspell, specifically.

You know, for a number of years I had been watching the success of social media and specifically I was involved in building a social network for Broadway theatre lovers. And one day I was thinking, imagine I had these thousands and thousands of people. Imagine if each one of them contributed a little bit towards a production, I could easily raise a large sum of money quickly. And for the theatre—and this is the big thing I think about crowdfunding, and crowdfunding works the best when there is a very strong emotional connection to the product.

You can crowdfund theatre, you can crowdfund film, you can probably crowdfund a sports team actually, but I knew that if I could get a large number of passionate theatre lovers in the same electronic room, that we could probably make a Broadway musical happen.

I was also inspired by a website called Million Dollar Home page,[4] anyone know this website? If you've got your iPads in front of you, take a look. This is a college kid from the U.K. who found himself about $22,000 I think in debt, so he started a website called the Million Dollar Home page. He sold pixels for a dollar a pixel, a minimum purchase of 100. If there were 1 million pixels on the page, he made $1 million, just like that.

His pitch, if you will, was own a piece of Internet history. It was not "give me a buck for a pixel," it was "own a piece of something that will actually exist forever." And if you go on the website, you'll see that he sold them—people didn't buy a pixel at a time, companies started buying 100, 1,000 pixels at a time and actually placing ads there.

It's a very interesting phenomenon as with the production of *Godspell*, the minimum investment was $1,000, but the average investment was actually about $7,500.

Whenever you have a pay what you can or a low minimum, the average is always much higher, and that's what you'll see even on Million Dollar Homepage.

So take a few of those things, combine them, even including with the campaign of our current President and how he raised a tremendous amount of money. And I said, what if we could do this for a Broadway musical? And I called my attorneys, Dan Wasser, my theatrical attorney who I've worked with for a number of years who is used to getting crazy calls from me. And I said, "Dan, I've got another one." And he's like, "What is it?" And I said, "Here's what I want to do, I want to raise $5 million from thousands of people all over the country and all over the world, and I want to do it a little piece at a time." And he said, "Ken, you can't do that." And I think Dan was protecting me actually in trying to say, listen, it's not that easy. And I kept going, and going, and going, and asking again, and late night Googling frankly, until I stumbled upon something called the Regulation A.

So I called Dan back and said, "What about this?" And that's when Dan said, boy, Ken is not going to give up on this subject. That actually might work, let's talk about how that can function, which is frankly when we brought Gary in to deal with a lot of the State issues, specifically. But that is the beginning of the application, frankly. And again, what I think the best of all attorneys do, including the ones Gary and Dan, is take an idea like mine that you may call "outside the box," and frankly, figure out the box that it fits into.

I have actually let a number of attorneys, managers, a whole bunch of staff members go throughout my career, because they would not sit with me and try to find a way to work with an idea I had and try to come up with a practical application. And thankfully, I had Dan and Gary on this to figure out a way to do it and it was quite successful.

JASON AYLESWORTH: Dollena, Do you want to share your experiences? Actually if you could set up for the room what crowdfunding is, companies that you've dealt with crowdfunding and how it relates to film productions that you've worked on?

DOLLENA CAMPBELL: Sure. Crowdfunding online. Obviously, you're going to individuals, especially on online crowdfunding sites like Kickstarter and Indiegogo. You're getting thousands—reaching thousands and thousands of people and asking for smaller amounts of funds from people as well as organizations possibly, or sometimes businesses also donate, but that's another story.

Kickstarter and Indiegogo are the primary sources right now for crowdfunding. It doesn't mean that you can't do it on your own on other websites, but these are the two sites that everyone's using right now. Kickstarter is a little stronger in the crowdfunding aspect than Indiegogo.

Some of the companies that I've worked with are production companies like Irvine Welsh's "Ecstasy," I worked on that film, "El Sistema USA," Anderson Monarch's, "The Whole Gritty City." Those are some of the examples of documentaries, as well as narrative productions that I've worked on when I've done crowdfunding. I've worked also with other businesses, but it has nothing to do with what we're talking about right now.

Should I expand on aspects of Kickstarter and Indiegogo?

KEN DAVENPORT: Yes, please.

JASON AYLESWORTH: And maybe tell us a little bit about each of the film projects, "El Sistema USA," because you're talking about building a community.

DOLLENA CAMPBELL: Yes.

JASON AYLESWORTH: And I think it's important to understand what each project is about.

DOLLENA CAMPBELL: Okay, so "El Sistema USA" is a documentary that's about music and social justice. So this one organization started in Venezuela teaching kids classical music to transform their lives. And they're expanding all over the country and into other countries, and now into the U.S. So the documentary wanted to feature from the beginning stages of creating an organization like this in the U.S.

So what we did was we wanted to create a receptive community to this film. When you do this you have to go to forums. You want to contact media bloggers, organizations. You're trying to find as many people as possible who are going to be a receptive community to the film.

So for the film, we were able to get organizations such as American League of Orchestras. We actually ended up having 20 organizations come on board to support.

In my opinion it's great to find organizations, because they're going to have a huge resource of people that they can send email blasts for your Kickstarter, Facebook, Twitter, in order to do outreach in order to get people on board to get excited about your film, because the goal is to create a receptive community. Let people know exactly what you're about. Get them—like it's kind of what you were saying—you want that emotional connection. You need the excitement and you want to convey that to the public, because to me especially with individuals, their donations are going to be related to emotions. It's not like when you're going to a business and you have to give them a proposal and a breakdown, it's really an emotional instinctive donation. So that's what you're going to try to do when you're doing crowdfunding so to speak, online.

KEN DAVENPORT: Thank you. Wilder, if you could speak about your experiences as a producer of films, as well as your position as production counsel for a number of well-known films.

WILDER KNIGHT: Okay. I have two colleagues in the building today, so I have to mention that I also practice law. Louis Auchincloss was my inspiration, he was a novelist as well as a lawyer for about 50 years. And for the last 25 I've worked primarily as a lawyer. And every year I pick two or three projects that I care about in some visceral way. It may have to do with the individual. It may have to do with the subject matter. And I get involved, and then eventually, I get more involved, and then I eventually have to write off a major portion of my involvement.

And very often people say, well what can we do for you. And I say well, whatever you want. And I very often become a producer that way. I'm primarily a business person when I'm on the team of filmmakers, I'm not a creative producer.

So if you've ever seen my name at the back of a film or even at the front of the film, don't associate it with the beautiful things you've seen up on the screen, just associate it with the fact that it ended up on the screen.

I see my role as to keep people on the straight and narrow. I've worked on "The Cove." I don't know, how many people here have seen "The Cove"? Okay, a few. It's about dolphin killings in Japan, and so it involved going on to what was allegedly private property, filming various things. I flew to Tokyo with the director because there was a threat that he would be arrested at the airport. So I do joke about keeping my clients out of jail. I mean, they all think outside the box. And I want to keep them from being put inside a specific box.

I've worked on "Chasing Ice," which is about global warming, a film I strongly recommend. I'm working on a film about swing dance, which has just finished a Kickstarter campaign where they raised $100,000. I worked on "Martha Marcy May Marlene," which is a feature film, which was pure investment. And I like to separate out funding from financing. I use financing to describe people who put money into films and want to take more money out than they put in. And funding is people who believe in the cause. And as an attorney I try to help spot the issues. And I think there's some very difficult issues right now.

As an attorney I have some concern about my law firm and myself when I get involved in a project and I'm dealing with extremely creative people who are not concerned about the SEC, they don't know what it is. They're not worried that there has to be a way to do this. And it's my job to try to rein them in and make sure that when people put money into a project that it's a good project.

When I taught at NYU I used to talk about the three levels of trust. Why do you trust somebody, and the first one is, the person's honest. In my experience I've rarely seen anybody who's dishonest from the get-go in the business. Usually what happens is people get involved in a project, they raise money, they get people to trade goods, provide services, contribute in some other way, and then it turns out that they're not competent. They simply lack the confidence. They may be young and enthusiastic, they may be middle-aged and enthusiastic, but they don't have the ability to pull off the job.

Secondly, I've seen projects where the ability is there, but the financing is inadequate. And so my question to myself is, what is my level of inquiry when a project comes across my desk? I don't like to have opinions about the creative matter that I'm working on. I don't think it's my place. I don't want to go into the kitchen and tell people how to make a movie. I think my creative contribution is that I keep my mouth shut, and that's how I contribute on that level.

And I've seen people who have the skill, they're completely honest and they run out of money. They simply miscalculated in terms of the financial side. My question is, is it my job to go through an inquiry on all three levels? I did have somebody who called me one time and said, "What do you think of this company?" and I said, "Well, I just ran a check on them, there's 71 lawsuits against that company in Hollywood." And that's a fairly quick check. But when you're talking about skill, it's a little more subjective. And when you're talking about the financing aspect, is there specific financing in place? That's a tougher one as a lawyer, but I know that if a project goes south when people start suing, they're going to sue me, they'll sue my law firm, and there's exposure there. And I don't find a lot of guidance right now in terms of the law telling me what level of inquiry I have.

When I taught at NYU, I had a student in the back of the room, tall, he looked like a roadside weed, had hair going off in all directions. I used to say there are three levels of inquiry. And I said well, what's the fourth level of inquiry on trust, whether somebody's trustworthy. And he said, "Well, what if somebody's a flake?" And I added that to my list. I learn a lot from my students. And he pointed out that there are certain people, they have the financing, they have the skill, they're completely honest, they do not get the job done, and that's even more subjective.

And you can call me, and I have a network of about, I guess there are 21 people on my list and about half are producers, half are attorneys. My roommate from college is an attorney at Fox. Another friend is an attorney at Paramount. And we trade information, and it's just with one click, I go, "What do you know about this person?" And I've had several instances where I knew nothing about the person. I clicked, I used my little homegrown, homespun due diligence network, and I get a note back, "71 lawsuits against this company." Or "last time this guy worked on a project there was a death threat against him, and I had to restrain myself from joining my client who wanted to kill the individual." That's very useful information, but I'm not sure at what level I'm required to undertake this inquiry.

And I do think the world is a little bit upside down in terms of the mentoring program. I encourage everybody to get involved. It's a great way to learn. I talk to my NYU students. At the end of the class, once it is over, I do point out to them that the whole class is kind of a scam, because I learn so much more from them I think than they learn from me.

Dollena was interesting, because she sat in the back of the class too, in the last row, I never knew why that was. And she always had her hand up, there was a good exchange. I introduced her to a client who was producing a film about marching bands in New Orleans—marching bands in New Orleans is about an alternative. There are gangs that you can join. There are gangs that you may have a tough time not joining if you're a young person in New Orleans. And this film was all about those choices. And I introduced Dollena to the individual who was producing the film, and he had started a Kickstarter campaign. And that Kickstarter campaign had a 60 day window. And on day 30 I think he'd raised about $3,412. I think about $3,000 of that had come from his mother, so it wasn't going well. And Dollena just said well, let me try that. And she jumped on and she raised $24,000 in eight days. Her next campaign, I think was $28,000 in six days. She's done a $40,000 raise and an $80,000 raise. And she is somebody from whom I am learning a tremendous amount.

The films that I talk about, "The Cove," is about animal rights, it's about pollution of the oceans, mercury in the oceans. "Chasing Ice" is about global warming. "Mad Hot Ballroom," I don't know if anybody here saw that. I was one of the producers on that film. And that's about giving kids another alternative to sports, to joining the math club. It's a healthy place for kids to spend time and develop social skills, which come in to benefit you later.

And I see my role in all of these as helping people making the movies. Dollena's helping people build the communities, and the communities that we're talking about are communities that—you're building your audience on day one and it's not just financing. There are certain causes, there are certain issues that we're confronting as a nation or confronting as a world. And Dollena taps into the emotions of the people who care about what we're working on. So that's basically what I do in a nutshell.

KEN DAVENPORT: Wilder, thank you very much. Now we turn right to the JOBS Act and the SEC rules. And Gary Emmanuel, the floor is yours.

GARY EMMANUEL: Thank you. The fun stuff. So I'm going to split this up into two sections. First of all I'm going to talk about Title II of the JOBS Act—the elimination of the general solicitation and general advertising rules, and then I'm going to turn to the crowdfunding exemption, which is in Title 3.

Before I get into some of the specifics of the Rules, I'm not sure what everyone's familiarization of securities laws are, but just some basics. If you're going to be conducting a securities offering you either have to register it with the SEC or you have to fall into one of the available exemptions.

The most commonly used exemptions nowadays is Rule 506, and the SEC recently published some statistics. In 2011, $895 billion was raised under Rule 506, and that's compared to $984 billion in registered offerings. So it's really almost the same amount being raised privately under Rule 506 as in registered offerings. And I think that nowadays, common practice is if you're going to be raising money for film or theatre, you're going to be doing it under Rule 506.

So just to go through some of the Rule 506 basics. You can raise an unlimited amount of money under Rule 506, but you've got some other limitations here.

First of all, you can raise money from up to 35 unaccredited investors, but if you do raise money from unaccredited investors, then you have certain disclosure requirements, which is one of the reasons why most Rule 506 offerings nowadays are structured as accredited investor-only offerings.

You can have an unlimited number of accredited investors. As a reminder, an accredited investor, if they're a natural person, is someone that has a net worth of more than $1 million. There's also an annual salary standard of $200,000 as an individual, $300,000 with a spouse, and you would have had to have earned that in the previous two years, and have an expectation that you would be earning the same in the current year.

There are also some categories of entities, which I don't think are so terribly important for the theatrical and film world. You are required to file a Form D within 15 days of first sale. And although the filing of the Form D is not a condition to the exemption, it's something that is recommended that filers do, and you also file it with the state as well as the SEC.

The Rule 506 securities carry transfer restrictions with them so investors can't freely transfer them as soon as they have purchased.

And then finally, and most importantly for this discussion, there is a prohibition on general solicitation and general advertising. And that really does go to the core of what Rule 506 is, a safe harbor of the Section 42 private placement exemption, which is all about doing a private offering.

So what is general advertising, and what is general solicitation? Well, general advertising's pretty clear. That's advertising on the radio, television, Internet, social media networks, pretty self explanatory.

General solicitation is a bit of a term of art. The concept has developed over the years. Basically, it means that you need to have a pre-existing substantive relationship with the investor. And what that means is that you knew the investor before they came to you in the offering. And that you have some sense about their financial wherewithal that they're going to have the ability to invest in your offering.

So what does the JOBS Act do? It eliminates the prohibition on general solicitation and general advertising so long as the issuer has taken reasonable steps to verify that the actual investor is indeed an accredited investor.

Now, the SEC mandated that by July 4th of 2012 last year that it would revise its rules on Rule 506 to reflect the new rules in the JOBS Act.

On August 29th of last year, the SEC issued its proposals, and I think the proposed Rules are in your materials here. And what the proposed Rules did is they really fleshed out what are those reasonable steps that a company is supposed to take in order to verify that an investor is indeed an accredited investor.

The SEC really had two options before it. They could adopt a bright line approach to this where they would be very specific about what steps you need to take in order that you satisfy the new requirements.

Alternatively, there was what we call the facts and circumstances approach to this, where the SEC would lay out a bunch of principles that you would give consideration to, and it would be really, really a case-by-case test that you would apply.

The SEC opted for the latter approach, the facts and circumstances test. And what they say in their release is that you have to factor in three things in order to determine whether someone is an accredited investor.

First of all, you're going to consider the nature of the purchaser, and the type of investor category they fall into. Secondly, you're going to consider the amount and type of information that you already have about the particular investor. And finally, you consider the nature of the offering. For example, how was that person solicited, did you do it over the Internet?

I think as a practical matter what this means for film and theatre offerings is that if you're going to be engaging in general solicitation or general advertising, self certification where the investor checks the box and says they're an accredited investor is not going to be enough anymore.

The real question is: what is going to satisfy the standard? And because we're talking about mostly natural persons that are investing in theatrical and film offerings, you're probably going to have to request copies of W-2's, tax returns. You may have to get a certification from the investor's accountant or their lawyer that the person is indeed an accredited investor.

Now, this facts and circumstances test that the SEC has come out with has proven to be quite controversial. There have been over 200 comment letters that have been submitted to the SEC so far. On the one hand you've got groups like the ABA that have been very supportive of the SEC's approach to this. Their belief is that we need flexibility. There's no such thing as one size fits all here.

On the other hand you have you have NASAA, which is the regulatory umbrella body for the state regulators. They've been very critical of the SEC. They believe there should be bright line rules. And in addition, they say that the Form D should be filed prior to the commencement of any general advertising.

Where things are left at the moment, I think that the SEC is reconsidering its approach here, because of the pushback that its received. So it wouldn't surprise me if the final Rules look very different from what they look like today.

One other thing that the SEC proposed Rules did is that in the future you're going to have to check a box indicating on your Form D that you are engaging in general solicitation and general advertising.

And then one final thing that the Act did, and this is actually a very interesting aspect of it—they created a special exemption for funding portals. And we're going to talk, I think, a little more about funding portals in relation to crowdfunding shortly, but you've also got the idea of funding portals for Rule 506 offerings. What this means is these websites, very much like Kickstarter, but in the context of Rule 506 offerings, they're providing matchmaking services. And in order to bypass the prohibition on general advertising, they limit access to the investor materials to your accredited investors.

Now, what the SEC has said in its guidance is the only people that can operate these funding portals are registered broker dealers. Well, now this is all going to change. It's saying, now under the JOBS Act, these funding portals are not going to have to register as broker dealers as long as they do not take transaction-based compensation and conduct other activities that are similar to broker dealers.

And what I mean by transaction-based compensation, that the funding portal is not going to take a commission on the offering proceeds being raised, which obviously could have impact on the type of business model, but's it certainly a major relaxation of the Rules as it relates to funding portals.

One thing I'd just like to emphasize here, the SEC, although it hasn't issued anything in writing as far as I know, they have made it clear informally that until they issue final Rules on general solicitation, general advertising, there's no changes, it's business as usual. And I think that that's generally the view of the practicing attorneys out there. So just something to keep in mind if you have clients coming to you and asking you, oh, I heard about this, can we do this. The better answer is, no.

So turning to crowdfunding now. What the JOBS Act has done is it created a brand new exemption here, which can be found in Title 3. And what the exemption tries to do is strike a balance. A balance between giving access to all these small investors out there, these unaccredited investors that want to contribute small amounts of money to start-ups and new businesses and while at the same time, providing investor protection.

Now, it's a bit of kind of how you look at this from a philosophical prospective. I've heard people say the JOBS Act with its crowdfunding rules should be called the

Micro Cap Fraud Act because of the real risks here that all these unaccredited investors face.

My particular view of this is that the crowdfunding rules have really created a lot of roadblocks, and are going to make it very very difficult for this exemption to be practical.

What I'm going to go through now is some of the limitations here that are involved. So first of all, crowdfunding is limited to a dollar limit here. You can only raise up to $1 million. And $1 million in a 12 month period. So we're only talking about a very small amount of money for some—if you're doing a Broadway production, that's certainly something where you wouldn't be doing crowdfunding for.

Secondly, there are limitations on the amount that can be invested by an individual investor in any 12-month period in a particular company. And the way it gets broken down is it depends on what the net worth of that particular individual is.

So if your annual income or net worth is less than $100,000 then you can only invest a maximum—the greater of rather of $2,000 or 5% of your annual income or net worth.

Now, if you are an investor that has a net worth or an annual income of more than $100,000 then the maximum that you can invest is 10% of your annual income or your net worth with a cap of $100,000. It's a bit confusing and there's some internal inconsistencies in these rules, but the bottom line is that the maximum investor that can come into your crowdfunding is only $100,000. So combined with your $1 million limit, your potential maximum $100,000 investor, you're already talking about significant limits.

The third significant limit here is that the crowdfunding itself can only take place through a funding portal. You can't crowdfund on your own website or on your own Facebook page. The only thing that you can do is you can put a link up on your website and direct it to the funding portal.

So again, I think that it depends on how you look at this, but I think that this is going to be a significant and limiting factor in how you do this, especially because—and I think we're going to talk about this a little bit later—there are a lot of requirements and obligations that are incumbent upon the funding portals that are going to make this more difficult.

In addition, a company that is doing crowdfunding has to provide disclosure to the prospective investors and they're going to have to file this with the SEC and with the funding portal. Now bear in mind, if you are doing a Rule 506 offering directed just to your accredited investors, there's no requirement that you provide any specific disclosure beyond the fact that you know you're not committing fraud.

So what you are asking of these companies—again, we're talking about start-up companies that are not necessarily very sophisticated—to put together disclosure materials that are going to look very much like a PPM or a mini prospectus that you'd see in a public offering, and ask them to actually file those disclosure documents and have investors rely upon those. And I think that that's something very dangerous if you don't have professional help.

In addition, there are financial disclosure requirements. And that depends upon how much you are raising. So if you are doing an offering of $100,000 or less in a 12-month period, then you're only required to provide your income tax returns and certified financial statements.

If you're in the $100,000 to $500,000 category, you have to provide reviewed financial statements by a public accountant. And if you're over $500,000, unless the SEC changes this, then you're going to have to provide audited financial statements. Again, bear in mind, you're doing a Rule 506 offering and it's to an accredited investor only, you don't have to provide audited financial statements. The only situation where you would probably do that is if you're a company that has audited financial statements in the first place.

Now, hopefully the SEC will issue some rules that will give some guidance to start-up companies. And I would include brand new production companies in that category also that are raising money. Obviously, if there's been no activity there's no point having an audited financial statement. So it remains to be seen how that turns out.

You're also going to be required to file, at least annually, financial statements with the SEC. And again, that's going to be fleshed out in the Rules. And if that was not enough, you've got significant liability here.

What the crowdfunding Rules do is they impose what we call 12A2 liability. This is liability when you make a material misstatement that is applicable usually to public offerings. And the people that can be liable for this are not only the company itself, but its officers and directors.

So your managing members and general partners of these production companies could be held personally liable. And the risk is even greater because you're talking about potentially large numbers of investors here that are unsophisticated, that may have an expectation of return on money that may have been provided with substandard disclosure documents that may have made all kinds of promises about returns in the future. So I mean, I think you could certainly see class action lawsuits being commenced against some of these start-up companies.

The one kind of bright light in all of this is that securities sold will be covered securities. What I mean by that is that state laws are going to be preempted. So you're not going to have to qualify your securities offering under the individual state laws. There's going to be a small filing fee I think that you have to pay, somewhat similar to the way it works with Rule 506, but certainly, you're not going to have to worry about state laws in the same ways that you may have to in other types of offerings.

Now, the SEC was required to issue its rules on crowdfunding by December 31st of last year. Obviously, that deadline has passed and at the moment we're in a holding pattern. We're just waiting for the SEC to issue its proposed Rules.

One other aspect of this also that we're going to have to wait for is that, because the funding portals need to be registered with both the SEC and FINRA, FINRA itself has to come out with its rules to lay out what the mechanics are for someone that wants to admit itself as a member of FINRA as a funding portal, and what its particular responsibilities and obligations are going to be.

KEN DAVENPORT: Great, thank you so much. Gary, when do you foresee the JOBS Act integrated with the finalized rules by the SEC?

GARY EMMANUEL: You know, it's a very interesting question. When you ask the SEC the same question, they don't want to commit. So I'm not sure I going to commit to an answer here, but I think that the indications that we get from the SEC is that they want to first of all—if you look—let me take a step back here.

The SEC, when the JOBS Act came out, they were still working hard on issuing their rules on the Dodd-Frank Act, which goes back to 2010 and there's still many rules that still need to go final on that.

In relation to Rule 506, one of the Rules that they still need to issue, we call the "bad actor provisions" or the "bad boy rules," and those are basically prohibitions on officers, directors, or 20% or more shareholders of companies that have bad actors. For example, they have regulatory issues or they may have been bankrupt in the recent past, so they're going be prohibited from doing Rule 506 offerings in the future.

So I think the SEC wants to issue those Rules first of all. Then I could foresee following up with the final Rule on general solicitation and general advertising. And I think it's going to take a little bit longer for the SEC to come out with even proposed Rules on crowdfunding because the issues there are just so complex. There's a lot of things that they need to think about. And it's just such a hot button subject that they need to make sure that they got it right the first time.

KEN DAVENPORT: Oh brave one.

KATHLEEN CONKEY (AUDIENCE QUESTION): As a novice in all of this area, I need to make sure I've got a baseline understanding here. It sounds like things like Kickstarter aren't part of any of what you are talking about, right? They're not under the 506 exemption. They're obviously not a public offering. How do we have Kickstarter?

WILDER KNIGHT: They shouldn't be part of this, but I know there are people out there who are using Kickstarter and trying to raise money and use it for investment or generate a list and use it for investment, so there are people across the lines. You're right, there shouldn't be a connection, but—

KATHLEEN CONKEY: Well, my understanding of Kickstarter is that you start a website or you get on the Kickstarter website and you try to raise money to produce a film, or produce a play, or whatever. If you're raising money, how are those people not investors? I guess that's the baseline question.

GARY EMMANUEL: Yes, I think there's a fundamental distinction. It's a great question. Kickstarter is a donation-based model. So the person making the investment is not purchasing securities themselves. They are not securities, they're not purchasing shares in a company, membership interests in an LLC, or limited partnership interests in a limited partnership. They're simply donating money with no expectation of any kind of return, or of getting a baseball cap or a T-shirt.

In the crowdfunding exemptions now being created by the JOBS Act, we're talking specifically now about a specific exemption that deals with investors purchasing securities in a specific securities offering.

WILDER KNIGHT: I just wanted to add one more point. People are funding projects through Kickstarter, and in some cases the funds will be routed through a 501(c)(3), and in other cases, it's simply a straight donation, no tax writeoff.

JASON BARUCH (AUDIENCE QUESTION): I have a question, it's for both Ken and Gary. Ken, given your experience with *Godspell*, first of all, putting aside the JOBS Act, would you ever see doing another offering under Regulation A again, and what your experiences were like with that, blazing a new trail with a new form of financing that we in the theatre industry have never really used before? Would you do it again? And B, now seeing that we have the JOBS Act on the horizon, does that affect how you might be fundraising in the future?

KEN DAVENPORT: So have you ever heard the expression of a vision board? You know, you put something on to inspire you to do some things. So I have a copy of my legal bill tacked onto my vision board to remind me never to do this ever again.

No, the truth is, here's the thing. I'm a big believer of blending the business model of what I do with the artistic model, what I do to kind of tap into the emotional core that I was talking about before. And look, the real inspiration for why I crowdfunded *Godspell* was this. I sat across the coffee table from Stephen Schwartz, who wrote *Godspell*, and *Wicked*, and a whole bunch of other musicals. And I said, "Stephen, would you just answer this question for me, what is *Godspell* about?" And he looked right at me and he said, "*Godspell* is about a community of people coming together. That's what the show is about." And I literally walked away from it going, God, this is the perfect show for me to do what I dreamed about doing when I saw that Million Dollar Homepage. What if I can bring together the largest community of producers and investors to fund a show about a group of people coming together?

So the answer is a little complicated in that, would I look at another model like this, yeah, but the show would have to suit it.

I'm doing a whole bunch of shows right now—from a musical version of *Somewhere in Time*, to a revival of *A Few Good Men*. Okay, does crowdfunding work for *A Few Good Men*? No, it just doesn't make sense. I'm kind of a marketing guy and that kind of message just doesn't connect the same way that a crowdfunded *Godspell* did. *Godspell* also has a brand that sweeps the world, frankly.

As far as the question about, would I incorporate the JOBS Act into future financing? I mean, I am standing there like a puppy dog waiting to get his dinner for the SEC to reveal what actually all these Rules are really going to be.

I know as Gary said that crowdfunding under the JOBS Act for a Broadway show is virtually impossible. I mean the first question that all of us, I think, raised our hands, and we heard about this coming down the pike was, if I form an entity and I can raise $1 million, and then someone else can form an entity and they can raise $1 million, and 10 entities later we'll have $10 million, we'll do a musical. Of course, and Gary I'm sure can speak about this, they won't be accredited, therefore, they won't qualify under a traditional offering.

So I don't actually think that it will be used to fund Broadway musicals. But as Gary pointed out, I think it's a huge boon for the off-Broadway community.

I started my career producing off-Broadway shows. I do a lot of consulting for want-to-be-off-Broadway producers, which are frankly, future Broadway producers, so it's very small business people. Men and women around the country that are the backbone of America that frankly cannot raise capital, cannot raise $1 million in the way that they would really like to get their show off the ground.

And the off-Broadway community is actually struggling right now, and jobs have been lost because of it. And I do think the JOBS Act will allow more and more off-Broadway productions to happen, just like more and more independent films as well, but not the massive Broadway productions that you see.

MARY ANN ZIMMER (AUDIENCE QUESTION): Hi, I have a hypothetical that I'd like to ask all of you. I have a client who wants to produce an independent feature for less than $1 million. The client needs to raise money. When I hear about the JOBS Act, even though you can't go to it yet, it sounds to me like that's more onerous than Rule 506. And so the JOBS Act is a whole lot of nothing as far as a practical possibility for the low-budget independent producer.

So how does an independent producer get financing? Simply through accredited investors?

AUDIENCE QUESTION: Actually my comment is related to that, so maybe you can address them both at the same time, because I was a practicing securities lawyer for along time, and I also worked in the entertainment industry afterwards. And the thing about the crowdfunding is, although Congress has set all these very specific parameters and all the Rules that will govern how much someone can invest and who can invest and so forth, yet they've done it in a way that really ties the SEC's hands with respect to what they can propose in their rule making. And because they also require the portal, which is going to be exposed to so much liability. You know after being in the securities industry and realizing what it's like to be a broker / dealer and how cautious they are—let's talk about practicalities here, because the SEC can only do what Congress told it to do. You're not going to find a broker / dealer who is going to expose themselves to that liability for raising $1 million or $1,000 per person. So I just wondered what your view on that is in connection with my colleague's comment about where people are going to go to get money.

WILDER KNIGHT: Well, to go back to the first question, where are we going to look for financing, and I want to know what the story is, I want to know who is involved, and I want to figure out what community of people will care about the project. Who is going to be passionate about it. And they can be passionate because an actor is attached. They can be passionate because of the story, it's a fiction feature. They can be passionate because there's an ecological topic there that they feel needs to be talked about in the public forum. And so I would start there. And then I would try to figure out who funds and who might finance something along those lines.

There's certain stars, there's certain talent. There's what's called bankable talent, means when the name is attached, a bank might even give you a loan because it's just so clear that that individual is going to bring people into the movie theatre.

I think Kickstarter is a great tool. I think the key—there's several—I'd actually like Dollena to talk about the elements that make a good Kickstarter campaign, maybe in a couple of minutes, what works and what doesn't work. But I think there's a community out there, and if you can raise say $100,000 and your budget is $750,000. I've seen people raise I think $200,000, $250,000 on independent films. That's a confirmation that you have something that people care about. It's also a confirmation that the ticket buyers, the people that feel that they've helped make this project happen, are out there. And now when you go to potential investors, it's a much more interesting investment, because the Kickstarter money is free money whether it's come in through a 5013c and people have gotten the tax writeoff or whether it's just people giving you $10 and saying "yeah, yeah, yeah, don't worry about the paperwork, just take the money."

You now have—it's a shorter race to recoup your money out of the proceeds from the film, so it's a much more interesting deal. But I think it all starts with the script just like what you see up on the screen starts with a script, the financing starts with a script.

GARY EMMANUEL: Yes, and I'd just like to add to that that I think there is a real win here in the JOBS Act. And the win in the JOBS Act is the elimination of general solicitation and general advertising, I really wouldn't write that off. I think that is really going to open up many new opportunities that didn't exist before.

So for your less than $1 million independent feature, provided that they have the network of family and friends, there are accredited investors that could invest in that, there's real opportunity there.

The other point I'd just like to address with respect to the funding portals is that—who wants to do this? Well, I think there are a lot of people out there that do want to get into the funding portal business, despite some of the problems.

Last I read, there were over 500 funding portals that are already in existence or in the process of being created and that will look to register themselves with FINRA once that availability comes into being.

One of the things to bear in mind here with these funding portals, some of the obligations that you're going to have, they're going to have to provide the investor with investor education material. They're going to have to conduct background checks on each officer, director and holder of more than 20% of the securities. They're going to have to insure that the offering proceeds are only released once the target amount has been reached. And they're going to also have to police these individual investor amounts that each individual investor is subject to.

So I mean, I think there are some real significant obligations here that are going to be incumbent upon these funding portals. And I think you're right.

Broker dealers I don't think will want to get into the game of crowdfunding because the margins here are just so low.

WILDER KNIGHT: And also the chance of a film making making money is remote. When I was younger, there were about 500 films produced a year in the United States. And the statistic I heard the other day—I recommend people go to two websites, one is Seeds and Spark, it is put together by Emily Best.[5] And the other one is Slate.com. And these work with filmmakers to guide them through the process to make sure they have good process and whatnot.

I think we're going to see a very tough market for the finished film, because the number I heard the other day was 15,000 films are being produced. And I know Sundance used to have 300, 400 films submitted, and now they take 180 films, 60, 60, 60 in the three different sections. And they have about 4,800 features submitted each year, and about 4,500 documentaries each year, and those numbers just keep going up. And so the competition is tough.

What's also interesting is that you're dis-intermediating, you're cutting out a lot of people in the middle in terms of distribution. We're not quite at the point where those people who signed up and gave you $10, or their family members who simply heard about your project, can download your film. I fit into the challenged category in terms of streaming and downloading films. I'm not there yet, despite where I practice. But I think in five years pretty much everybody in this room will be touching buttons and very comfortable getting that Netflix over their TV screen directly without going to the post office.

JASON AYLESWORTH: Thank you. Anne.

ANNE ATKINSON (AUDIENCE QUESTION): Less a question, more a comment. It's very tricky to combine charitable fundraising and for-profit investment, because there are private inurement rules. The treasury doesn't like people—individuals to earn a huge amount of money if part of the people get to write off their investments. And there are ways to do it, but it's complex.

JASON AYLESWORTH: Thank you, Anne. Dollena, I want to ask you a question. Wilder suggested, notwithstanding the JOBS Act, how would you propose doing a Kickstarter campaign to a client?

DOLLENA CAMPBELL: Well, Kickstarter is a donation—so you're not really going to have to worry about some of the issues that you were explaining. But with Kickstarter you need a strong trailer that's your first and foremost—because it's a very visual medium.

So when you're thinking of raising funds for Kickstarter, that's like number one.

WILDER KNIGHT: Can you explain what a trailer is?

JASON AYLESWORTH: What, like a two minute trailer or something?

DOLLENA CAMPBELL: Whenever you see like a film on television when it's advertised, those are trailers. Kickstarter, you're going to need something that kind of is a teaser, so to speak. It doesn't necessarily have to be a finished trailer. A lot of times you'll have a director speaking on a Kickstarter and kind of showing pictures or something like that instead of a full finished trailer. But for the most part you need something that's very strong, elicits an emotion, it has to.

WILDER KNIGHT: And can I just throw in that there's an organization called the Golden Trailer Awards, and they work with people who just make trailers. And trailers—it's a different art form. These are not people who have made feature films with any degree of success. They haven't made documentaries, they haven't made TV commercials. It's very special, and they're very good at it.

And what Dollena is talking about is a subset of the trailer world, which is a Kickstarter trailer, where you're trying to get people interested in maybe two or three different elements of the film. Somebody may look at the trailer and they'll see a person that they relate to, a struggling filmmaker who is having trouble. I saw one where the filmmaker was talking to the landlord and couldn't pay the rent, and pulling on your heartstrings, then talking about the story. And then some of the camera work was extraordinary. Talking about the musicians who were involved, trying to bring in the community that supports those particular musicians who were going to do the soundtrack. So it's a really different art form.

DOLLENA CAMPBELL: Yes, it's totally different. And of course it needs to be something that's not—well, something short so you're talking two minutes or less when you're creating a trailer. So there are people who are going to know specifically how to do that to elicit the emotion necessary, because you definitely need to have—another good thing is your niche audiences are communities. There may be a specific reasons, some trailers will be about an organization, or say there's a documentary that I'm working on, like "El Sistema," where you're going to want to really focus on those kids and the music, I mean, because that's the only reason that someone's going to really want to donate to your campaign.

So each time you kind of have to isolate what's important about this film. Why would I want to donate to this person in the first place?

It's kind of hard for me here, because I don't know whether to talk about emotion aspects, because that's—I mean, you guys are dealing with very specific issues that having nothing to do with emotion so to speak, it's just the laws.

JASON AYLESWORTH: But we're also dealing with clients too.

DOLLENA CAMPBELL: Yes.

JASON AYLESWORTH: And it does deal with emotion, so we have to recognize it, so please speak on it.

WILDER KNIGHT: And we're trying to rope in their emotions in the same sentence.

DOLLENA CAMPBELL: Okay, well then, that's the most important part. The trailer, first and foremost, that's something I always tell them, I need a strong trailer. And so we have a strong trailer, we don't have a Kickstarter.

I have a background in marketing, I used to market for business before I even went into helping films. And I'll tell them, I can lead them to you, but once they see your trailer, if it doesn't elicit an emotion, that's the end of it.

So there's a couple of programs online that will track how many people clicked a trailer. So if I can see lots of impressions and no donations, then that's a problem.

So you definitely have to have a strong trailer first. And then, of course, the idea of identifying your niche communities and reaching out to them is definitely necessary before you launch your Kickstarter, so that you are already working with those communities and telling them about it, because I think when it comes to donations, it's kind of like when you walk into a store and someone says, would you like to donate a dollar to the blah, blah, blah. You hear that every day to the point where sometimes you don't listen, you're just like, "no thank you," and you just kind of shut off.

So when it comes to Kickstarters, I always feel like you develop a relationship with your audience first before you launch. You're already talking about your project. You're already just saying, "Hey, what do you think of this trailer, check it out," things of the sort. "Like us on Facebook." It's just kind of like you're a neighbor. And now you're—oh yeah, we have a Kickstarter, check us out. So now people are receptive to your Kickstarter instead of launching and then running into "give us some money." You want to already create that environment. And let them know what you're really about, because that's important.

It's never about just breaking down a synopsis like you would do normally if you were going to a business to ask them for money, because people don't care. It's all emotional when it comes to fundraising online.

JASON AYLESWORTH: Jay.

JAY KOGAN (AUDIENCE QUESTION): Sure. Following up on your conversation about Kickstarter, and Indiegogo, and sites like that. In terms of them being donation sites, has there been any actions in terms of what people are receiving in return for those donations that are causing these things not to be viewed as donations, but to be violations of the law, because they're offering more than just a hat, or a T-shirt, or some tchotchke? They're offering producer credits, or trips to Hollywood, or whatever they're offering. At what point is it no longer a donation, but you're getting something significant in exchange that might change the dynamics?

The second thing is, and I mentioned this earlier to Jason, there's a lot of things out there like Fanfilm, Fanfiction that have been around for a long time. Are Kickstarters and Indiegogos changing the dynamics there? If somebody's trying to raise money to put on their own live stage production of a Disney movie and they're now soliciting donations of adding up to—I'm not sure if there's a limit even on Kickstarter. But are there concerns there, and have you seen any enforcement or policing having started in these areas?

DOLLENA CAMPBELL: On Kickstarter, before you're able to launch, they review your Kickstarter, basically your campaign. So there's certain things you can't offer, period, anyways, but producer credits are definitely not one of them. You can offer producer credits right now, and that's definitely like you said before, walking the fine line.

I know certain films like—I mean, because I do a lot of research on other films that have successfully launched huge campaigns. Bluelight Jazz is one of them. And I know that they offered a producer credit, but it was more of a vanity credit. They mentioned to them that their credits would run on the left side of the screen, whereas the other credits would run on the right side. So I think it's more about seeing your name on the screen than it is like being a traditional producer. And of course, they weren't going to put those credits on IMDB as well.

So I think people are thinking in those terms and thing to protect themselves. Not all are, some people are walking that fine line, definitely. But again, it's still like a donation instead of anything else.

Unfortunately, when it comes to like things like trips to Hollywood usually it will say—and I've noticed this on a lot of them—that you have to fund it yourself. It's more about, for instance, meeting the director. Like for instance, when I raised funds for Irvine Welsh's "Ecstasy," people wanted to meet Irvine Welsh, and you know, he's a famous writer, so we're going to send you to meet him, but however, you're going to have to pay for your flight, you're going to have to pay for your hotel. They just wanted to shake hands with him and probably shadow him for a day.

So that's basically a little easier to offer than to say we're going to fly you up, we're going to do—you know, things like that become kind of tricky to do.

So I think people are watching, but I don't think that the average everyday person thinks in terms of any of the laws. They're assuming Kickstarter has that covered, and that's definitely not a good thing, I mean in the sense of producer credits and things of the sort.

WILDER KNIGHT: Yes, I've looked for Kickstarter litigation, and I'm not finding anything. Has anybody here found a Kickstarter litigation? Because my daughter is in art school in Savannah, Georgia, and her next door neighbor designed a product and he did a Kickstarter campaign. And then suddenly he had this big silly grin on his face because he had $75,000 in his bank account. And he is completely incompetent. There is no way that anybody is going to get the product. And I'm trying to analyze why there's no Kickstarter litigation. There may be that everybody gave $10 or $100.

It also can be said that he did everything in good, incompetent, faith. I mean he's sincere, but he's 19 years old, he's learning. And I think some of the Kickstarter people are learning too, there hasn't been a lot of bad press. And my guess is there will be some bad press. There will be one person who goes in from day one saying, "I'm going to take out $2 million." Because there was one product that raised several million dollars in eight days.

JAY KOGAN: And how about the other part of the question in terms of productions based on third party intellectual property?

WILDER KNIGHT: I'm not sure I follow.

JAY KOGAN: If somebody on Kickstarter is raising funds to do their own amateur production of *Godspell*, or if somebody wants to produce a live stage production based on a Disney-owned property, and they're soliciting monies and things like that, sort of like a Fanfilm or Fanfiction, but now in exchange they're being given DVDs, or T-shirts or things like that.

Have you heard of any third party IP owners complaining about Kickstarter, Indiegogo?

WILDER KNIGHT: No, but I would assume Disney, their lawyers would jump all over that.

AUDIENCE QUESTION: Right, it would just disappear quietly.

KEN DAVENPORT: I think the important thing about Kickstarter is it's like selling Girl Scout cookies electronically. I mean, have you ever returned a box of Girl Scout cookies?

You know, the strength of Kickstarter is really the strength of your network. And usually people that are donating to it are so emotionally tied to you. And frankly, that's in what I do too. A mentor of mine when I started raising money a long time ago wrote me a big check for something that I was hard pitching like crazy: "This is going to be so successful." He stopped me and he said, "I'm going to write you a check for $100,000." And he said, "But I don't think the project is going to work." And I was like, "Then why are you writing this check?" He said, "Because I believe in you and I invest in people, not in projects." And that is really what is happening on Kickstarter, people are investing in the people, including people like Dollena who get the message out there about these important projects.

DOLLENA CAMPBELL: That's getting a little harder to even register for Kickstarter. When I first registered, they would kind of just check out your project and flag it. Now they want to know who you are. They'll ask you, did you buy your house at this address. They want to identify who you are, because I think they're starting to understand that perhaps later along the line there may be a lawsuit that could come up, because it's definitely true. People are believing in you. And you are telling them in good faith we believe that we can create this film.

In my case, we've always communicated with the audience if, for instance, someone's donated and perhaps we weren't able to get out the product on time, things of the sort. And everyone's a little more understanding about it. But I definitely could see someone would perhaps have that motive.

KEN DAVENPORT: By the way, that multi-million dollar raise in eight days was for a video game console, right? Which some people say, ew, it's tech, it's emotion-based. Those people were promised the first console if they invested X dollars. And video game addicts, junkies, they want to be the first to play the game. They want to talk about that, it's all emotion-based, as is most arts fundraising, etc.

WILDER KNIGHT: And I think the pitch was also about a couple of people. They got emotional about the person too.

DOLLENA CAMPBELL: But for something like that also, Technorati.com, it looks for the newest computer animated things of that sort, and it covers everything.

So a lot of Kickstarters I've noticed, that's one of those trends that are happening. I can get into the blogs, but it's harder and harder to do, because everyone wants to get into a blog for Kickstarter or have someone feature it. Technorati is going to feature every single new type of like technical product that comes out. So I've noticed that a lot of the Kickstarters that are really big successful Kickstarters are on Technorati when it comes to digital or anything like technical. And, of course, from there the *New York Times* picks it up and it just goes viral, so.

JASON AYLESWORTH: Thank you. Do you have a question?

AUDIENCE QUESTION: Yes. If things go south, where does an aggrieved investor assert a claim? Who's got jurisdiction? The SEC? The AG's White Collar Crime Unit? The fictitious Internet enforcement office that everybody thinks exists and doesn't? Where do you file your claim for fraud or other issues?

GARY EMMANUEL: So for crowdfunding as I mentioned beforehand, there's going to be this 12A2 liability, which is going to empower investors with the ability to initiate their own lawsuits, and they can even get together with other investors and initiate class action lawsuits. So that's certainly one avenue. I think that the SEC—

AUDIENCE QUESTION: And those are federal claims?

GARY EMMANUEL: They would be—I would imagine it would probably be federal. There would probably also be state based claims that you could raise that would be based around 10B5-type claims. It would depend on which state you were going to be doing this.

In addition, you've got to bear in mind that the SEC is going to be keeping a very keen eye on what's going on in this area, because the first time that there's some big fraud in this field, everyone is going to point the finger at the SEC, because they blamed them for Madoff, and they're going to blame them for crowdfunding, even though it wasn't the SEC that created the crowdfunding—it was Congress. So I think there's going to be a lot of regulation.

And in addition, you've got all the states that are going to be looking at this very carefully. And remember, they can keep track of this, because you're going to be indicating on your form D that you're engaging—well, I guess in the case of Rule 506 you're going to be making filings that you're engaging in general solicitation and general advertising, so from that aspect they're going to be very interested.

And the other aspect from pure crowdfunding is that there is going to be a filing requirement in certain states, I think, where you have the certain percentage of more investors or where you are based. So they're going to be taking a look at it once you make a crowdfunding filing. And I think obviously the intercommunication between the regulatory bodies, both the SEC, federal level and also between the state regulators is going to result in potential enforcement actions here.

AUDIENCE QUESTION: I'm not aware of it, but do you know, has there been any litigation in the Kickstarter Fanfunding area?

WILDER KNIGHT: Also, I was going to say, I think the economics dictate against a class action lawsuit because we're dealing with very small amounts of money, so you're not going to see the traditional class action law firms take on cases like this. And I've had two cases where investors were outraged at something.

And once I saw the word "outraged," I stopped reading and told the client, give them the money back, because in one case it was $1,000 and in another case it was $10,000. And I said if you want to fight it, give me a retainer for $25,000, I guarantee you results. And they sent the money back, and we were done. We never heard another word.

AUDIENCE QUESTION: Thank you.

JASON AYLESWORTH: Before I move on to the next question, I want to talk about *Rebecca* for a moment and just the producers' duty to verify who they're soliciting funds from. In the case of *Rebecca*, the Broadway producers, they needed I think about four and a half million dollars to capitalize the Broadway production.

It was originally supposed to open in the spring of last year, and when they announced that they had to postpone it, they got in touch with an individual by the name of Mark Hotton who purported that he could actually secure these funds. And ultimately, the parties that he listed, one was I think a guy named Paul Abrams, who actually does not exist. So Gary, a question I have for you, and even Ken as well, what—not saying Ken's ever done this, but—

KEN DAVENPORT: I am Paul Abrams.

JASON AYLESWORTH: Paul Abrams died of malaria on a safari trip. But it's fascinating though, what duty did the Broadway producer have in verifying with the investors?

GARY EMMANUEL: Yes, I don't think there's necessarily a duty at the securities level. There may be fiduciary duties from a corporate level to your shareholders. You know, again hindsight is 20 / 20, but if someone comes along saying "I'm a broker," because this guy at the time was a broker with one of the firms out there and actually worked for some of the really big investment banks in the past. But if someone comes along and says "Hey, this is my past, you can easily look them up," you can go onto FINRA's website. FINRA F-I-N-R-A.org, and they've got something called broker check. And you can look up individual brokers that are registered, and individual broker firms that are registered. And not only can you see whether they're registered, but they produce a report for you. And in this report it's going to detail things like customer complaints, bankruptcy, judgment liens, things of that nature.

Now, in this particular instance when you did a broker check on this Mark Hotton, it showed even at the time when these communications were initiated between him and his producer, that he was bankrupt, and he had some judgment liens against him. So these are real major red flags here.

But again, it's very difficult to put yourself in the shoes of the producer back then when you're hunting around for $3 or $4 million. I think the broader question for both the theatrical and film communities is, to what extent should you be relying upon these third parties, introducers, finders, whatever you want to call them, unregistered broker / dealers out there that are helping you raise money, because the reality is that you are at a much greater risk of fraud when you start dealing with these characters than with a broker / dealer firm.

The flip side is obviously, broker / dealers, registered broker / dealers don't want to go near film or dealers. So you're in a way caught in between a rock and a hard place on this issue.

JASON AYLESWORTH: But what you're saying is there's a simple step if one of these third parties approaches a producer, you can go to www.finra.org and do a background check.

GARY EMMANUEL: Yes, that's something—

JASON AYLESWORTH: That's probably the easiest step you can do.

GARY EMMANUEL: That's probably the easiest. And the interesting thing is in the SEC's release when they talked about specifically that their three factor test and the nature of the purchaser, they gave us one of their examples of broker / dealer, because a broker / dealer is automatically an accredited investor. And they said, you can go to FINRA and do a broker check on this person, and that would be basically considered a reasonable step for satisfying the requirements.

AUDIENCE QUESTION: Just to get a more complete sense of context and perspective on this. Can anybody on the panel give us a sense of how many Indiegogo and Kickstarter campaigns actually succeed?

And also, we're hearing about substantial efforts and substantial expense from the sound of things in pursuit of tiny amounts of money in even tinier increments, but a lot of the ideas I think are familiar to anybody who has been involved in funding arts or cultural institutions, ranging from the sale of lottery tickets to build schools, to the sale of subscriptions to fund opera.

So to what extent is what you're describing actually different? Is that difference just a matter of degree or is it something more dramatic?

DOLLENA CAMPBELL: Kickstarter will of course put up their successes first, but if you start looking you'll see that there's a lot of failure on Kickstarter.

There are sites that have researched this and said three out of five failed, some say two out of five. So it's somewhere between there. I haven't had that problem, because I also have a marketing background.

And also the average Kickstarter that succeeds is $10,000. Mine are significantly higher than that, but again, that's a marketing background versus someone who perhaps thought they could just contact their friends and that magically the Internet will find people for them, and pray to the Internet and it will give them all the money they need, but unfortunately, it doesn't work that way. So for the most part that's the percentage on Kickstarter.

KEN DAVENPORT: I have a consultation client—actually that he called me up and said, "I have a show, I want to produce it off Broadway." And I said, "Great how are you going to fund it?" And he said, "I'm going to do a Kickstarter." And I said, "Great." And I started to give him some advice. And I wrote a blog a while ago called, Ten, Kick and Kickstarters, and How to Really Make a Great One.[6] And I said, "You've got to send this out to all your friends, and family, and people that you work with," and blah, blah. And he said, "I don't really know anybody, I don't have any friends"—I was like, who's going to fund it? He said, "Well, I'm just going to put it up on Kickstarter, Kickstarter is like a shopping mall, right? People are just going to walk through, browse, and pick something they like and purchase it, right?" No, it's wrong. It's just not the way it works.

And of course, the interesting thing about Kickstarter is that you will donate your money, $100, but your credit card is not charged until the campaign is successful, so it's a little bit of an insurance policy. Of course, if you're starting a campaign, you either just pitch in the money yourself at the end and make sure you get over your goal or set a reasonable enough goal.

As far as to the expense of microfinancing, crowdfunding, this is a great question. I had a number of—let's call them concerns with the SEC and the Rules and regulations about what we did with Reg A along the way. And this is going to sound like a lawyer joke, and it isn't, I promise you. But one of the things that I thought the Government was slightly out of touch with in terms of raising money in 2012 was how expensive it was to hire great attorneys, which are essential to do this kind of thing.

As Gary was talking about, sure there could be on some of these funding portals shoddy disclosure and all of this stuff. That is not what a good entrepreneur, somebody who has an MBA even, wants to do. And it's expensive to hire you. And yet on Reg A, at the time, it's gone up to $50 million now, correct? But there was a cap of $5 million. And all of a sudden when you start to think about what it would cost you, what you'd have to bill to a client to put a Reg A through the SEC, through seven amendments, and all the states, I mean it starts to add up to the point where I was like, what percentage of my $5 million offering is legal alone, never mind accounting, never mind copying all those dang documents and just FedExing them around to all the different states?

And the regulations were slightly out of touch with the amount of money that small business people, who again are the backbone, as they all say, of this country, how much it really takes to get these businesses off the ground. And that was one of my major concerns. And there has to be a way. And I actually believe, and I do think funding portals are going to be successful, and lots of people are going to do them. And I think they have to find a way to make it affordable for small businessmen and women of this country to raise money this way.

There will be new specialty, I believe attorneys, counsel, accountants, that specialize just in this niche that will be volume oriented that will have more blanket sets of documents. And they will work more on a volume game than they do on just a small number of clients and larger fees.

WILDER KNIGHT: But I think that begs the question of our level of inquiry, because as a lawyer I wonder what my role is to inquire into the background.

I have a reputation for being tough when it comes to checking backgrounds. There are other attorneys—there was a deal in California, and the deal went to the attorney in California. The German clients asked whether they should work with me and a couple of lawyers out there said, no, no, no. He won't get the deal done, which is correct. And I would have saved one client $5 million, the other one $4 million. I did get them as clients eventually in the litigations, and that was very exciting.

My comment to Ken is yes, we're very expensive, and not using us can sometimes be even more expensive.

KEN DAVENPORT: And just my counter to that is I absolutely want to use the best, I want to pay for the best. In that case the percentage that was going to legal was more than the percentage that was going actually to product development and R&D.

WILDER KNIGHT: Right, and I think everybody's goal has to be to set up a system that gets as much onto the stage or up onto the screen.

GARY EMMANUEL: And I'd just add to that that when you think about the practice of securities laws, it doesn't really matter whether you are dealing with a project that's $100,000 or $100 million, the issues often are the same. So when you're thinking about drafting risk factors, you have to think about them in exactly the same way. So do I foresee volume practice out there in a way to make this work? Possibly, but the quality is probably going to be very very poor, because you can't give the same amount of time and attention that you really need to do to these things.

And again, it's also going to create added liability for the lawyers that are involved in this if they're not doing a proper job.

WILDER KNIGHT: I actually think there's a business concept, which would be to provide that due diligence. Just one stop, just fill out this form, and then I run it through all of my databases. I'm not going to set up that business, but it would certainly be something that I'd like to use.

DOLLENA CAMPBELL: And a quick backtrack by the way to the Kickstarter versus Indiegogo question. Indiegogo is always successful, by the way. Unlike Kickstarter, Kickstarter is all-or-nothing.

So if you don't raise all of your money on Kickstarter you don't receive it, whereas on Indiegogo, anything that's raised, you will be able to receive that money. Just a note in case you are not familiar with the two different services.

GARY EMMANUEL: Yes, and I think the crowdfunding exemption envisions only like an all-or-nothing approach also. So you're going to have a target amount that you have to raise. If you don't reach that target amount, you have to return the investor funds.

JASON AYLESWORTH: I just read an article recently by Henryk Kowalcyzk called *Crowdfunding and Lotto, Which Is Worse*? And it was posted on Huffington Post. But he raises a good point—is that the Government and the SEC is making it very difficult to allow a non-accredited investor to do crowdfunding. We have no problem with allowing them to play Lotto, which is basically throwing out their money.

Now, an average Joe could actually have, let's say $50 and invest or $100 and invest in a start-up company, and maybe actually see something fruitful in the future as opposed to Lotto, which the Government does receive monies from Lotto, correct?

KEN DAVENPORT: This is such a simple analogy, but I use it all the time. I literally was talking to a potential investor once about a project and they said "What are you doing this weekend?" "Oh, I'm going to Atlantic City. How about you?" Oh, I go every other weekend, it's great. Last time I lost like four grand, that was horrible, but I'm going back. I'll find my lucky machine." "Great, great, do you want to do this," and she was like, "I actually can't participate in your offering." And I said, "Why not?" "I'm not an accredited investor." The interesting thing about her is she was an accredited investor and then the Dodd-Frank Act changed the definition of an accredited investor to pull out the value of your home, so she changed. But she couldn't do it.

And then as the phone call ends she was like, "Wish me luck in A.C." And any person in this country, regardless of your income level, can walk into a casino anywhere and bet their life savings without a check, without an I.D. check unless you look under 25, that's it. We'll let them do that and it's another example of big money wins. I mean that's big business. Casinos are big business and they've found a way.

Now, it's regulated, so my simple statement has always been, if we can find a way to regulate casinos in a semi-intrusive way geographically, age, we should be able to find a way to regulate the financing of businesses which provide jobs all over this country.

AUDIENCE QUESTION: As one who works with a broker / dealer specifically doing private placement offerings, normally the broker / dealer like you were eluding to before is going to work on commissions on that, and their accredited investors are going to want to know in the future they're going to get something out of this stock—later on they have it restricted for a year, then they can release that restriction. Then they can go ahead and do what they want with it.

Now, how do you convince a broker / dealer to get involved with something like this for film, and theatre, and how would that broker / dealer go ahead and convince accredited investors later on that this is something that they can be involved with as well?

GARY EMMANUEL: I think there's an important distinction here, which is that there is going to be a lot of interest at the broker / dealer level in the Rule 506 offerings where there's an elimination of the general solicitation, general advertising, but it's just not going to be a viable model for crowdfunding for a variety of reasons. Liability being one of them. The small amounts involved, I mean if someone is raising $200,000 or $300,000, I mean how much money can the broker / dealer make? And remember also, the broker / dealer is going to be subject to much higher standards than a regular funding portal because of their status as registered broker / dealers. So you know, I don't think there's any real model for this, to be honest, when it comes to broker / dealers.

JASON AYLESWORTH: Hey, Peter.

AUDIENCE QUESTION: Hey, Jason. It seems like the Kickstarter model is based very much on rewards and incentives, do you have any more guidance on what rewards trigger more risk than others?

DOLLENA CAMPBELL: Well for Kickstarter, it's easier to do the online—like for instance, digital downloads and the things of this sort. You want to try to think of the easiest way to get products out. I think any product that you have to ship and that is really huge or something like that, or you're shipping across—a couple of Kickstarters, they had people shipping to India and shipping all over the world, to China, you're going to have problems with maybe someone receiving a reward, and that's going to become a risk in the sense that, of course, someone may complain or say you created fraud. But I don't think it's going to be a risk in a sense of a reward. Kickstarter regulates rewards.

So what I mean by that is, you can't sell alcohol for instance. There's certain things you can't do. You can't do lottery tickets, you can't do things of that sort. But the producer credits are obviously going to be walking that fine line, things of that sort, that's pretty much it.

JASON AYLESWORTH: Gary, I had a question for you. The offering that you did for—changing topics a little bit—but the offering you did for *Godspell* was a Reg A, but isn't there a new one that's coming out, a Reg A plus?

GARY EMMANUEL: Yes, there is. So one of the things that the JOBS Act did was it introduced a new exemption called Reg A Plus. Now, this isn't a replacement for Reg A, it's just basically a souped-up version of Reg A. And under Reg A Plus you can raise up to $50 million. You're going to go through regular review process with the SEC just like what you would do with a Regulation A offering. There's no restriction on the transfer of securities after you've sold them. And one of the most important aspects of what they've done with this Regulation Plus is that they're going to be considered covered securities under limited circumstances.

And the two circumstances are 1) if the securities are sold on a national security exchange. That's really an applicable for private companies. You need to be a public reporting company today to be on a national security exchange, such as NASDAQ or the New York Stock Exchange. But the other way of doing this is if the sale of the securities is made only to qualified purchasers.

Now, "qualified purchasers" is a bit of a term of art that hasn't been defined yet by the SEC. So when the SEC comes out with its Rules on Regulation A Plus, hopefully they're going to define what a "qualified purchaser" is. And hopefully also they are going to define a regulation that a qualified purchaser is going to be someone similar to the standards of an accredited investor today, because if they make it a much higher standard, they're going to obviously limit the pool of people that you could potentially go to and benefit from the covered security status.

And one of the reasons that Regulation A is almost never used as an exemption is because not only do you have to clear it with the SEC, but you have to clear it with almost 52 states if you want to sell in all of those states, which you know, it just makes it from a financial perspective, just totally—it's totally an unrealistic prospect.

So that's really, I mean in my mind, one of the most exciting aspects of that. And bear in mind that under Regulation A offering, once you're clear with the SEC, there's no limitations on the type of investor that you can go to, so you can potentially structure something like—you could call crowdfunding under Regulation A up to the $50 million, and you wouldn't potentially have to qualify. The one requirement again is that you'd be subject to be selling to qualified purchasers, whoever that may be in the future.

JASON AYLESWORTH: Very well, I'm about to wrap up the program. I just want to give some information. On New York State Bar Association's website there's a blog run by Elissa Hecker that has information about the JOBS Act and the SEC,[7] so please—and for other great articles that are on the EASL Blog, please check it out.

I really want to thank your panelists today. I'm very grateful to all of them, Gary Emmanuel, Wilder Knight II, Dollena Campbell, and of course Ken Davenport. I also want to thank Rosemarie Tully. She's always inspiring us to create a bunch of different programs. Beth Gould is just an exceptional liaison for our Executive Committee. Lori Nicoll from Albany, she actually helped out with preparing the materials. I also want to give a shout out to Joseph in the back, he's the tech guy who's actually done the webcasting, but just on the fly, being able to fix the microphones, really appreciate that. And I thank the Executive Committee for supporting this program. And thank you very much, and all of you who presented questions.

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ROSEMARIE TULLY: I just wanted to mention to you that the EASL Section also publishes books through the State Bar Association. We currently have two books, one is *Entertainment Litigation*. The other one is *Counseling Content Providers in the Digital Age*. And we have a third book coming out in the spring, *In The Arena*, and it is on sports law. It's a sports law handbook that will be coming out in the spring. All of these are fabulous guides to assist you in your practice.

Moving on to our next panel. Our Program Chair for this panel and our Moderator is Barry Skidelsky. Barry is a former radio broadcaster and jazz musician. He is a nationally prominent attorney and consultant who works well with other lawyers. That's what he says, I don't know if it's true, he wrote this of course. He works well with other lawyers, companies and individuals on a diverse mix of legal and business matters involving media, entertainment, telecommunications and technology. A former Co-Chair of the Federal Communications Bar Association's New York Chapter, Barry is Co-Chair of EASL's TV and Radio Committee and Chair of today's program. He is also affectionately known as the Voice of EASL. When you hear Barry speak, you will know why. So please welcome Barry Skidelsky.

BARRY SKIDELSKY: Well, thank you Rosemarie and welcome everybody. I am a radio guy, musician turned lawyer, and I do have a diverse practice. I am a solo lawyer like many of us here. And I find the work really interesting dealing with entrepreneurs, musicians, large companies. I also offer my services as arbitrator, God forbid anybody needs that. And my significant other is a matrimonial lawyer. There, I've covered all the bases.

Today we're talking about business models in media and music. It's a complicated world which exemplifies the old saw about the law lags technology. The law is always playing catch-up to technology.

Music licensing in particular has been a particularly difficult field for the creative types, the business types and the lawyers who advise them all insofar as it's difficult to know what rights you need, where you go to get them, and what kind of deals are standard in the field.

Today we are privileged to have with us an excellent panel of lawyers and one non-lawyer who will help us address the emerging issues facing the converging fields of entertainment, telecommunications, media, etc.

With us today is Todd Larson from Weil, Gotshal Manges. And we also have Michele Page from VEVO,[8] and we also have Chris Harrison from Pandora,[9] and Jean Cook from The Future of Music.[10] I'll give a little more info on each of them as we introduce them to give their remarks.

I would like to advise you if you haven't seen any program I've put together before, that my preferred mode is to try and engage an interactive dialogue between the panelists themselves and the audience. So unlike other presenters, I don't care about waiting until the end for questions and answers. So if you feel there's an issue or you have a comment or a question in the moment, please find your way to them if you can and let's try and have an entertaining and informative session.

As many of you know, when it comes to the regulatory economic business and practical issues, there are a bunch of federal agencies and statutes to deal with. Because of my background in radio broadcasting, I have a particular expertise in FCC. And some of you may not be aware, but the FCC has recently promulgated Rules requiring closed captioning for any television programming distributed by IP, Internet Protocol, in accordance with what's called the 21st Century Communications and Video Accessibility Act.[11]

Accessibility is the latest buzzword down in D.C., where people who are deaf, hard of hearing, need to be able to take full advantage of the technology that powers the so-called Information Age.

There is for example, a new proceeding under way for text to 911. There have been recent new rules about loudness in television commercials, the Calm Act.[12] There have been new rules promulgated to allow for Internet access on aircraft. The FCC, in its infinite wisdom, or Congress, in its infinite wisdom, required television broadcasters to transition from analog to digital television, which for those of us, most of us in the country get our programming by cable or satellite, you may not have noticed any difference. But if you have an over-the-air television, you'd know that it no longer works.

Now that broadcasters have spent millions of dollars doing this transition, the Government has done an about face and said, you know what, since IP is going to be the new telephone network, we're going to ask TV stations to surrender their licenses, share spectrum, whatever they can do in order to create more spectrum to relieve the pressure of these bottlenecks. If you think about it, it's all content and distribution that they want to expand access to people in both urban and rural environments, particularly.

And we've seen more and more players getting into different fields. You see now television programming provided by phone companies. You've seen telephone service provided by cable companies. Google has recently set up a Wi-Fi network to cover all of Chelsea. And some of you may know that they did a deal in Kansas City where they're rolling out a gigabit Internet access service.

The changes in technology and proliferation of devices has resulted in an environment today where more and more people are accessing their content rather than owning their content. And the idea is that I want to be able to access what I want, where I want, when I want, on what device I want.

Consumers more than ever have become empowered and given choice. You can watch videos on your tablet, on your smartphone, on your PC. You can watch it on your cable, on your satellite. And the business models have to adjust.

Physical media has disappeared. There's no more record stores. Those of you old enough to remember the days when we went to record stores to buy cassettes and before that, LPs. And before that, 78s, and before that, wax recordings. Anybody have a wax recording at home? Anybody have a 78 at home? How about cassettes? 45s? LPs? CDs? Wire recorders, right.

The physical media proliferation reminds me of the conundrum that myself and other parents have faced when their kids come home and bitch, "I can't live with PS1 I need PS2, scratch that, I need PS3, scratch that, I need the physical formats…" the physical media, I think, are disappearing.

AUDIENCE QUESTION: I don't want to be argumentative, but someone who's got one foot in the digital world, and one foot in the physical world, half worldwide sales are still physical, the other half are digital, and there are literally thousands and thousands of independent record stores in this country that sell CDs and the new growing format, vinyl. So it's not—we're not in a totally digital world yet by any means, though obviously, it's the world that most people think we live in.

BARRY SKIDELSKY: Thank you. And that is actually a subject that we had discussed as a panel beforehand, that vinyl in some quarters has made a resurgence. There's audio file vinyl for those who prefer not to listen to their zeros and ones. In a sterile environment you can actually hear ambient noise and tones, overtones.

So that's pretty much the overview that I'd like to share with you. We're going to move to our speakers now who will collectively help us address these issues about access versus ownership, statutory licenses versus direct licenses, and more.

The first speaker to my left, Todd Larson from Weil. He specializes in music licensing, not only does counseling, but is involved with Rate Court litigation, as you guys probably know, ASCAP and BMI are subject to consent decrees, SESAC is not yet.[13] He has represented DMX in historic carveout litigation. He has also been before the Copyright Royalty Board (CRB) in proceedings involving webcasters, SiriusXM versus SoundExchange,[14] and of course, plain old ordinary copyright infringement litigation. How do you fit the old wine in new bottles. Please give a round of applause to Todd Larson.

TODD LARSON: Hi, thanks Barry, and thanks for having me today. I'm going to play the setup man here, my plan to sort of set up the conversation is to actually discuss three or four of the recent cases in the licensing field and copyright infringement field. They actually take place in the TV context. They're what have become the disruptive TV cases much discussed.

I think they are good because they basically hit on all of the issues that any new service or business model has to ask when thinking about what sorts of rights their services implicate, what kind of licenses are necessary—issues of whether or not a service is publicly performing. Whether what they're doing is fair use. Whether or not they're creating reproductions that need a license, those sorts of things.

I think the cases are also interesting. Again, a setup for our conversation here, because they beg the question, when looking at a new technology or a new type of service, do you just basically look at the kind of top level functionality, and say, well this thing looks like a VCR, it acts like a VCR for 25 years. Under the *Sony* decision[15] it has been fair use for a user to make copies of works on their VCR, this should be fair use as well. Or do you sort of look under the hood at the technology and say well, okay, maybe this thing looks like a VCR, but it requires copies on this server and that server, and those are reproductions that require a license. And it's streamed from a cable head end, so there are public performances being made. So that requires a license as well. Where should a court draw the line when faced with those questions?

So I'm going to do this quick and I'm going to show a few slides. And I should note, I was on a panel a couple of months ago with some co-panelists who developed these slides and counsel from these cases, and I'm using these with their gracious permission. So we'll move through these quickly here.

So the first case is the *Ivi* case, and this was a case before Judge Buchwald, *WPIX v. Ivi*,[16] in the Southern District here. And the basic question here was, what happens when you try to create the Internet version of a cable company? Ivi was taking over-the-air broadcasts from four cities, and then downloading them to a server and then streaming them out over the Internet to subscribers, and attempting to take advantage of the compulsory license that's available at Section 111 of the Copyright Act, which cable companies are able to use. And those fees are then paid on to ASCAP and BMI members and various other copyright holders whose works appear in cable programming.

Judge Buchwald took a look at the system and did a very fine parsing of the definition of "cable system" under the Copyright Act and essentially determined that

that definition was not intended to include distribution over the Internet.

So as a result of that, Ivi's attempt to qualify as a cable system was held to be invalid, and they were not able to take advantage of Section 111, hence relegating them to the need to seek voluntary licenses from all the copyright owners in the programming that they were distributing.

Notably, Ivi did not—or conceded that they were making public performances. The question was really whether they qualified for Section 111. So that's the first sort of background case to sort of keep in mind.

The second one, probably a little better known is the *Cartoon Network* case, better known as Cablevision.[17] Of course, this is the case where Cablevision, the cable company here in New York, was sued by a variety of content owners for a technology which is depicted here in the diagram.

Basically what Cablevision was doing, they would, as typical, take the feeds off the networks at their cable head end, but then when that stream came in, as opposed to passing it through to their various subscribers as they usually do, they would split the stream and that would roll down to a local hard drive or a server at the Cablevision head end, and then the user would interface essentially with the Cablevision system, not unlike how they would typically do with their DVR at home.

So in the usual or "traditional" set up, and I say "traditional" in quotes, but the situation that's been in place for the last few years with DVR technology, a user would from their home set a program to record at 8:00 on Thursday night and it would record to their local set top box. Really no question under the *Sony* case that that's a fair use, making that recording for the user for the purposes of time shifting.

This system had the effect of essentially taking that DVR functionality and centralizing it at the Cablevision head end, and as a result when the user got on screen and asked for something to record at 8:00 on Thursday night, instead of recording on their set top box, it would record on this server space at the Cablevision head end. And then the user could subsequently stream that programing from that central copy. And so that had the effect of then creating a stream or a performance that was transmitted from Cablevision over to the user.

When User Two wanted to record that same program, the system was actually set up so that it would create a second copy, a personal copy for the second user, and when that user went to watch it later, their performance that they received would stream from that second copy and so on.

So essentially, you had a situation where instead of everybody streaming it from their own copy on their own box sitting on top of their TV, they were streaming it from their own copy sitting on a server at Cablevision's head end. And several questions were raised by the case that are important for all of us who deal with copyright licensing.

The first question had to do with buffer copies, and in each case what I'm about to tell you is where the Second Circuit came out on this decision. Judge Chin was the District Court judge, and the Second Circuit actually reversed him on each of these three points.

First question was, to the extent that the system stored little pieces of the programming at various points along this transmission path, essentially buffer copies, were those separately licensable reproductions that were being made? So the court looked very carefully at the question of reproduction. The requirement that it be fixed in a tangible medium of expression determined that the buffer copies were too transitory essentially to be fixed, and hence, didn't qualify as licensable reproductions under the Copyright Act. An important ruling for various webcasters and other services that stream content and have buffer copies created throughout their systems.

The second question that the court dealt with was to the extent these copies were being made on Cablevision servers as opposed to a local set top box, who was making the copies? Essentially, was Cablevision on the hook potentially for direct infringement for making these copies?

The court there on the Second Circuit ruled that although it was Cablevision's equipment, Cablevision's system, that the user was the one who was deciding what to record and when, using that equipment, the volition came from the user. And hence, that the user was the one making the copies, and if you're going to try to pin liability on someone for the reproductions it would be the user. And you'd be in again *Sony* territory questioning whether those copies are fair use.

The third holding by the court, which is the one that will bleed through these other cases I'll talk about in a minute, was the question of whether these streams that went from these central copies out to the users constituted a public performance for which Cablevision needed a separate license.

The gist of the ruling, and I'm summarizing all of this obviously, was that because each of those transmissions of a performance from one of these server copies could only be tuned into by the particular user who made the recording, and because each of those streams came from a copy unique to that particular user, all you had was a bunch of different private performances from personal copies. There was no public performance and hence, no liability for Cablevision for making public performances. So that case has had major reverberations throughout the industry.

The next case building off that are the *Aereo* cases, there's actually two. There's the *Aereo* case and the *Aereokiller* case,[18] each of which have now gone to decision and reached different results.

The first was the *ABC v. Aereo*, which was before Judge Nathan here in the Southern District.[19] Basically, *Aereo* was a next step beyond the *Ivi* case we talked about a minute ago. So whereas the Ivi system works such that the over the air broadcasts were downloaded to a server and then streamed out to individual subscribers, the Aereo folks took a look at the *Cablevision* decision, and devised a system where they basically created what I guess you call an antenna farm, which I believe sits over in Brooklyn. And it's literally thousands of little dime-sized antennas that can be leased or rented out by the subscriber. So they basically each have their own individual antenna.

So what happens is when the subscriber wants to watch a show, they actually will lease an antenna, their own unique antenna, it will download to the server, it will create a copy, and then the user will then have that show streamed from the Aereo server over to their computer.

The difference being that rather than just receiving a stream along with everybody else as in *Ivi*, they're now actually watching an individual stream from an individually created copy. Of course, a copy created basically to take advantage of the *Cablevision* decision.

So Judge Nathan looked at this and essentially held that it was on all fours with the *Cablevision* decision, that because Aereo was using a separate antenna, and more importantly creating separate copies of every recorded program for each user—that again, what you had was just a bunch of private performances going out to each of the users, and so you didn't have a public performance that would create liability.

BARRY SKIDELSKY: I just have a couple of comments to insert about *Aereo*. I think that in part this is a reflection of the change in release windows or that we're starting to see a change in release windows.

Instead of the traditional models of first in theatres, and then it comes out in Pay Per View, or Video on Demand, and then broadcast television, or cable, the benefit for a consumer here is I don't have to wait. I can actually watch this stuff online, so to speak, in real time. I don't have to wait for a release window.

And the second point that I wanted to make that comes to mind when I think about this is cutting the cord. We all know about people who now have no phones, no landlines at home, they just use cell phones. Probably some of us in this room do that. This could lead to people cutting the cable cord as well as cutting the telephone cord.

TODD LARSON: So the next case that came up, and this was in the Ninth Circuit, was the service called Aereokiller. Some dispute about whether the technology is literally the same as Aereo's, but it's similar enough for the purposes of the court. There Judge Wu, just recently at the end of December, looked at the roughly the same technology and essentially said, *Cablevision* might have held in the Second Circuit. I know what Judge Nathan did. I don't think that the Ninth Circuit would interpret the public performance clause the same way as the *Cablevision* decision did, and, enjoined Aereokiller. So depending on what the Ninth Circuit does with the case, the potential Circuit split on the very important question of what constitutes public performance under the Copyright Act and whether this—what's been a very important decision under *Cablevision*, that there's no public performance when you've got these individual streams—whether that will hold up or whether that will go up to the Supreme Court or not.

Just one more case quickly that's been important and much discussed lately, is the *Hopper* case.[20] So this is whereas the *Cablevision* case was essentially what happens when you take the DVR or the VCR and centralize it.

The *Hopper* case really begs the question of what happens when you create something that looks a lot like video on demand, but technically under the hood is just a souped up VCR.

So what the Hopper did, it's new product, sort of a robo-VCR created by Dish Network, who has retransmission agreements with the various networks. The Hopper has three tuners. One of those tuners can actually receive all four networks at once. And they created a service called Prime Time Anytime.

So what this allows essentially is for the automatic recording every night of all four networks during prime time, basically at the press of the button for the user. The user does have to say that they want this to take place. But what you end up with at the end of the week is every prime time program that played on every network all week.

Fox took the position that this is basically Video on Demand, something that as Barry was just suggesting they receive significant compensation for, in part because they window out their content in different release windows.

The argument was that Dish is essentially usurping that by creating this super DVR that records all the network programming.

The other sort of tweak of this is that Dish Network combines this with something called the Hopper, which basically cuts out all the commercials from this programming. So not only can you watch any prime time program on demand, you can watch it without commercials, which again, is something that the network receives compensation for in its Video on Demand agreements.

To cut to the chase, the court basically looked at it and said, well yeah, it may look and smell like Video on Demand, but these are essentially user generated copies on a DVR, VCR, no different than what were held to be fair use on the *Sony* decision going back to the '80s, and so there's no direct infringements for those user copies. And there's no secondary infringements to the extent that one wanted to argue the Dish was contributing to infringement or vicariously infringing, because those user copies themselves are considered to be fair use, there can be no secondary infringement.

The court did actually find infringement for certain quality insurance copies that Dish was making, but held that there was no irreparable harm, and so denied the injunction. And for anyone who's watched football over the last couple of weeks, you'll see the advertisements continue for the products at every commercial break. Question whether anybody's watching them, if they're actually using the Hopper at home. But anyway, it's been the popular program.

One caveat, I'll just say, this is the product that was the subject of the brouhaha out at the consumer electronics show in Las Vegas where CNET editors name the product their Best in Show or whatever the designation is, only to be told by a parent company, CBS, that they had to rescind that because of the litigation, so.

BARRY SKIDELSKY: Thank you, Todd. You know that brings to mind, since the focus of this is also business models, to think about advertising as changing along with the technology and the delivery mechanisms and the devices.

Some have said that content is advertising for the advertising.

AUDIENCE QUESTION: I'm surprised that cutting out the ads wasn't viewed as a problem, because I can see the consumers having to do it, but if it automatically cuts it out, why isn't that changing the transmission, and how does that fit under the rules for *Sony*?

TODD LARSON: So there have been cases where, for example, companies with certain religious beliefs have taken films and cut out sort of the naughty parts, and that's been held to be a derivative work of the original. But just skipping through a commercial as a copyright violation doesn't create a derivative work of the actual program that's actually being performed, so it doesn't really have a copyright implication. It did from Fox's perspective, clearly, have a contract implication, which is that they sell Video on Demand without commercials for a premium. And obviously it has business model implications, because the revenue comes from people watching commercials when it's broadcast, so it wasn't really a copyright issue so much as contract issue and business issue. But taking out those commercials doesn't violate any copyright from the original program.

BARRY SKIDELSKY: And the thought that I had in mind about advertising changing, advertising spots, selling spots, commercials, has given way to product placement. And not only do you see in a movie a guy starting to drink a bottle of Coke, or you see an Apple computer that they're using, but like original soap operas from the '50s in television, the content itself is being created to incorporate the products in it. All right, that's enough of that stuff.

Our next speaker is Michele Page, an intellectual property attorney for 15 years, currently Director of Business Affairs at VEVO. VEVO, if you don't know, is the number one music site in America now featuring premium music video. When you thought of MTV doing music videos no longer, think VEVO, they're everywhere—YouTube and other partners.

Michele started her legal career at Pryor Cashman doing IP litigation and transactional work before moving to Jive Records, where she handled contracts for Britney Spears, The Backstreet Boys, Justin Timberlake, among others, and from records, she moved to the music publishing side of the business, spending seven years at EMI Music Publishing as their lead synch attorney, working with artists such as Jay-Z, Alicia Keys, Beyoncé, and the Motown catalog. As I said, Director of Business Affairs at VEVO, please welcome Michele Page.

MICHELE PAGE: Thank you, Barry. Thank you everyone. I'm just going to switch PowerPoints, here we go. So as Barry said, this is going to be an overview of VEVO, which is a relatively young company.

It was founded in 2009, and to get started, I'll just give you a brief history of music video. I think we all remember MTV, but before MTV, music videos did exist. It's a short film or video that accompanies a complete piece of music, most commonly a song.

Modern music videos were primarily made and used as a marketing device intended to promote the sale of music recordings. But in an early example of a music video is "St. Louis Blues," a Bessie Smith song in 1929, where Bessie Smith back in the day appeared in two short films called "St. Louis Blues," featuring a dramatized performance of her hit song. And it was shown in movie theatres until 1932.

And when we fast-forward a little bit we get into the 1950s and '60s where the defining work in the development of the modern music video is typically thought to be the Beatles first major motion picture, "A Hard Day's Night," in 1964. There you got the band backstage, the fans, the performances, it was more than just a performance of songs. Which segued later in the ‘60s to Bob Dylan, we see a picture of him here, for his song, “Subterranean Home Sick Blues.” It was an ironic clip, he was holding up strange messages while he was singing a song. Allen Ginsberg randomly appeared in the celebrity cameo in this video. And the reason that it’s so iconic is because these non-performing, non-song related roles became mainstays in the form of music videos.

So fast-forward into the ‘80s, music videos are out of movie theatres and they are on TV. In 1981 MTV launched. As the genre developed, Music Video Director became an actual job, and they shot on 35mm film, much like movies were shot on, in addition to video.

By the mid ‘80s, releasing a music video to accompany a new single had become standard. Acts like the Jacksons and Madonna sought to gain a commercial edge by creating lavish music videos with million dollar budgets. Lady Gaga is up there, she does the same thing today. And MTV would come to play a central role in the commercialization of the music video.

When labels made these music videos, they just gave them to MTV to play, because the more eyeballs on their artists the better. So labels weren’t really monetizing these music videos except that they drove album sales, so that was sort of a back door monetization.

In the 1990s music videos moved online, they weren’t just on MTV, because there was the emergence of AOL, and MSN, and Yahoo, these sort of early Internet destinations, and music videos were then online. And instead of being programmed like on MTV where you turn it on and you watch them in a linear stream, you don’t interact, you don’t pick what you’re watching, you can actually choose what music videos you wanted to watch as like singles, but in an audio-visual experiential way.

So moving into 2005, the record labels were getting a little itchy, because they’re not making any money still on these music videos, except that they drive album sales.

Coincidentally, in 2005, two big things happened. Universal, one of the biggest record labels, took down all of its videos. It took back rights, it didn’t give them to MTV, didn’t give them to any of the online distributors, and said, “Hang on a minute, we want to take back control. We want to figure out a way to get some revenues generating from these music videos,” which were now like little shows that people like to watch.

And in the same year, 2005, YouTube launched. So all the labels followed Universal’s lead and pulled all their videos in the same year that YouTube launches.

So YouTube is up and running for about four years and all kinds of stuff is on YouTube. You’ve got this premium video content, the Madonna videos, the multimillion dollar lavish videos. And you know, Charlie Bit My Finger, and Melody plays “Mary Had a Little Lamb,” and it’s all intermingled on YouTube. That’s user generated content plus very professionally shot, what people refer to as premium content.

So in 2009, music videos are everywhere. And online supply had surpassed demand, meaning there was so much video content out there and so little sort of demand to see certain kinds or see it in certain ways that CPMs, which you know is the cost per thousand for music video impressions and viewings, had dropped to about $1 in the United States. So to advertise around music videos was ridiculously cheap, but you also had no target potential, and you were just throwing your money sort of out there. And you could see a McDonald’s ad around a home movie or around the new JZ video just as equally.

So while YouTube brought tremendous scale and brought a lot of eyeballs to video, the mix of user generated content with the premium video made advertisers uncomfortable and the prices were real low.

Enter VEVO. In 2009, VEVO was launched. And it reestablished the market for premium music video. CPMs increased dramatically, because all of a sudden there was a way to see—for a lack of a better way to describe it, MTV-quality videos in one place. So where it was $1 per CPMs, they went up to $8 to $10 per CPMs. And today, a few years later it can be $20, $25 for CPMs. So revenues began to grow.

The reason is that VEVO aggregated solely premium videos. So brands, advertisers, sponsors, can look to what we refer to as a clean, well lit environment.

So VEVO’s approach was to try to target the billions of people on the planet who love music. Literally, just go as global as possible. VEVO is not just a website, it is not just a channel. VEVO has a player that can be embedded in other websites. So through syndication deals VEVO—when someone goes on YouTube and wants to see the new Beyoncé video, they may not know it’s powered by VEVO, except there’s a little logo there. But they’re not searching on VEVO for that, they’re searching on YouTube. And the premium video, meaning from the biggest labels from the biggest artist, VEVO is the one licensee to show those official videos and is the sole one.

So VEVO partners up with Beyoncé’s, for example, artist’s page on MySpace, on Facebook, on YouTube. I’ll get to this in a little bit, but you can create a whole Beyoncé channel for yourself if you so desire through VEVO.

So VEVO is sort of like a bar that only serves top shelf liquor, that’s all that’s there. And advertisers like that, because all of a sudden there’s some targeting and you can do some demographic research, and you can get some view research.

And VEVO, it's a contained universe. There's 50,000 videos by 11,000 artists at any given time. It doesn't sound like a lot, but it's a lot, and it's all premium top shelf video.

So in that way, it's changed advertising dollars, because the audience for music video began in 2009 to be valued as much as the audience for television, movies, sports. The idea was to create that same type of experience.

BARRY SKIDELSKY: And the CPM grows accordingly?

MICHELE PAGE: Yes, they did. So from $1, to $8 to $10, and now I think it's like $20.

BARRY SKIDELSKY: And does VEVO rely on statutory licenses, direct licenses, or a combination?

MICHELE PAGE: A combination. I'll talk about that more. But in general, VEVO's videos are delivered in almost a passthrough way. The record labels who create the videos license almost everything having to do with the intellectual property contained in the video from name and likeness, to the song itself. They have deals with publishers to be able to include the song in a video knowing the video is going to be used for this, that, or the other thing, either commercially or promotionally. And what VEVO really needs to do on our end is get the performance licenses lined up with ASCAP and BMI in the U.S., and sort of sadly, territory by territory, outside the U.S. And that's VEVO's big undertaking. But when you have so many rights sort of passed through to you, it's not so bad.

So the point of this business model is quality music experiences, whenever and wherever. So there's VEVO.com. There's VEVO on the mobile web. You can download the VEVO app on your phone or on your tablet. It's IOS for iPhone and iPad, it's Android, it's Windows, it's BlackBerry, it's connected television, which is a term you're going to be hearing more and more, which is like gaming. So you can get VEVO on your Xbox 360, on your Roku.

We're doing deals to get into deals to get into the living room space, but not by standard television, by the consoles plugged into your TV. So there's going to be an icon, you can click on it, and boom, you have the whole world of VEVO in front of you.

BARRY SKIDELSKY: Can you explain what Roku is?

MICHELE PAGE: Roku is a box where you don't necessarily have a carrier like Time Warner Cable, for example. It's just a panoply of shows, and you can pick them on demand, doesn't matter what time they're on. There's nothing ever on Roku, it's just you have a menu of shows. Oh, I want to watch the new "Justified," there it is, click.

AUDIENCE QUESTION: Internet delivered, right?

MICHELE PAGE: Yes. You need an Internet connection.

BARRY SKIDELSKY: Yes, it's IP delivered and it's essentially a library of available programs. So there's a phrase called set top boxes, and at Consumer Electronic Show, for example, the TVs every year are the new thing.

There are now what they call 4K UHD TVs, ultra high definition, 110-inch screens, where the connected TV experience could encompass your own little server in your home that could store your own music library, music videos, or television or film programming that you want to have either professionally produced or user generated.

MICHELE PAGE: You can upload them.

BARRY SKIDELSKY: You can upload all that, you can share it. And one of the topics we'll discuss that's coming to mind here is Cloud storage. As we've said in the past that people owned physical media, and now it's ownership model giving way to access. And it's all just content distribution. How do you get it?

JEAN COOK: So it's like Sonos for video.

BARRY SKIDELSKY: Yes, you could sort of say that.

MICHELE PAGE: Yes, in a way. And people have called Hulu[21]—I mean, Vulu,[22] that's another on demand moving channel—have called VEVO like the Hulu for music videos.

So it goes to the point that you mentioned in our introduction, people are moving towards accessing their content rather than owning their content. And how can I get it, and where can I get the best experience where I don't have to pick through a lot of junk and just get right to what I need?

So again, VEVO is on Roku, on your Xbox, it's on Facebook, because VEVO's little player can be embedded, so if my kids love a song they can share it with their friends. And it adds a whole new interactivity, community to sharing music once like you maybe made mixed tapes and gave them to your friends. They're sharing music video playlists or single music videos.

And we have some major syndication partners, so we get these syndication deals to get our player as many places as we can. AOL Music, BET, CBS Interactive Music Groups, which is where LastFM[23] is, and MP3.com, Fused TV, Univision, Viacom Media Networks, Warner Media. So on the Rolling Stones' website you can see a video that's powered by VEVO.

TODD LARSON: Do you take licensing responsibility then through to the user as opposed to the site on which player is embedded?

MICHELE PAGE: No, they do it. It's their privacy policy. And you know, YouTube is the big one, obviously, because of the reach. They are in over 200 markets worldwide, so that's an amazing partnership to have.

And you know, getting more into it, VEVO loves being part of the social experience rooted in music, it's personalized. And there are destinations, there—again, with the Facebook links, sharing, the ability to make playlists, and send to friends.

You know I once went to a CLE course a couple of years ago and one of the top in-house record label attorneys was lamenting the loss of radio. And how do you know what to listen to. There used to be these great DJs, and they would point you towards all the great songs. And the curation of radio that you grew up listening to. And VEVO sort of picks this up in this new audio visual world, where some kids have never even owned a CD, they just download things. Now they don't even download things, they just stream them on demand. And they can share their favorite videos with friends. They can share it in their social networks. And it's this little microcosm of audio visual radio that can go on. And it's all, you know, clean well lit premium video.

So here are some of our partners where you can experience it everywhere. Here are some screen shots. You can see the YouTube page. The VEVO-owned and operated page here. The Facebook page. And this little V in the red is our sort of logo so that you know it's powered by VEVO, but otherwise, the viewing experience is the same in all these different places.

So it's not like, go to the VEVO channel, it's I want to see the new Rihanna video. Oh, it's powered by VEVO, and I can see it in all these different places.

A lot of people who work at VEVO really do believe in connecting artists with fans. In the living room, on their phones, on their tablets, on their computers. We are starting now to not just have music videos passed through and delivered to us, but to create original content, which appears again everywhere. Online, mobile tablets, game consoles and connected TV, and it appears almost all over the world.

For a young company, it was really exciting to launch in the U.S. in 2009, but now we're in the U.K., Canada, Ireland, Australia, New Zealand, Brazil, we just launched in Spain, Italy and France a month ago. And we target these places based on music interest, advertising markets, how the two can intersect, whether they are or not. You don't want to be too much of a pioneer somewhere, you want to come in at sort of just the right time.

BARRY SKIDELSKY: Since licensing tends to be a big chunk of the cost of doing business, the cost of sales, if you will, can you give us an idea of what percentage of your costs licensing might represent?

MICHELE PAGE: Not exactly. What I can tell you—what I'm at liberty to tell you is that VEVO is profitable. Its margins are very thin, because you do need to pay out to the content providers. And all of it is based on revenue in. So VEVO is a 100% ad supported free to user experience. So users don't pay subscription fees. It's free to you on the Internet.

You can watch these videos whenever you want for free, except we all know you're paying enormous Internet bills at home to gain access to all these things, and that's one of these hidden costs I guess. But it's 100% ad supported.

So you make a lot of revenue, let's say if on one of our programs, which I'll tell you a little bit more about, but there's a certified program.

So if an artist has a song on VEVO, a video that gets over 100 million views, which happens kind of often, people like Justin Bieber, Christina Aguilera, Britney Spears, they get a certified award for 100 million views or more. And it's this wonderful series, if you will, that is owned, if you will, sponsored by McDonald's.

So the only commercials that you will see during a certified broadcast are McDonald's commercials, and it will be maybe before, maybe a little plug in the middle, and maybe something at the end, it's not overwhelming. And in the middle you have Britney Spears talking about her video, and maybe giving you a history of her other favorite videos. And then you have a fan who wins in a contest actually presenting the award to her. And it's not just any fan, it's like her Number One fan who has a million questions for her. And they film it, and they're asking questions. And it's this really cute sort of poignant way to connect fans with artists all around a music video context. And McDonald's partnered up with VEVO for something like that.

And there are other examples where, I'll show you, we're getting towards the end of the deck, but you'll see some of our other big partners. We have over 800 brand partnerships to date that participate in various ways.

AUDIENCE QUESTION: What percentage of the videos are Universal or Sony?

MICHELE PAGE: Many. VEVO is actually, how can I explain this, it's almost like a joint venture, it's not a joint venture, but between Universal, Sony and EMI. EMI is not a partner or anything, but they've given us all of their content. The only major label who isn't really featured the way Universal, Sony and EMI are is Warner, and they did a sort of rival partnership with MTV online. And we'll see how that all plays out.

AUDIENCE QUESTION: Is the other income source the licensing—do you do licenses to YouTube or do you supply the player? That must be in a license, right?

MICHELE PAGE: We have sort of an overall partnership agreement with YouTube. It's a syndication license, at the end of the day. So it's similar to what we have with AOL Music and Yahoo Music. YouTube just happens to be one of our bigger partners. But yes, it's a syndication license at the end of the day. And it's almost like there's a revenue share formula that's in all of them that's almost essentially the same for many of them. There's not a lot of, well you get this, and you get that. There's some standards, and everyone sort of follows them.

AUDIENCE QUESTION: If I'm the user and I'm downloading these videos, am I getting a stream of these—what am I doing?

MICHELE PAGE: Perfect timing for this question. In short, you're not downloading them, you are streaming them. You never have them on your computer so that you don't have them living on your computer, however, they might as well be, because anytime—let's say you're on VEVO.com—here I'm just going to go to the next slide. It looks like this. So you can have this, "My Playlists" button. And you can see it in this little picture. Here's some videos you've been watching lately. You can literally drag and drop and videos you want into your playlist video.

For example, I had a dinner party a couple of weeks ago. I dragged three hours worth of music, audio visual music, everything had a video, into my party playlist, and I had my 60-inch flat screen on the whole dinner party playing music, but there was video too, and it was really fun, because it lead to some conversation. I don't own these videos, but I could stream them with a few ads here and there, nothing too onerous. And it was an enjoyable music streaming experience for hours, and hours, and hours.

BARRY SKIDELSKY: This is true interactive where you're able to select what music videos you want.

MICHELE PAGE: Yes.

BARRY SKIDELSKY: Unlike, we'll come to Pandora in a moment where you plug in something and the music recommendation system based on the Gnome project[24] won't give you that. If you plug in Rolling Stones, you won't get Rolling Stones right away, but eventually you will. But we'll talk more about that.

We mentioned LastFM a moment ago. LastFM has very recently decided to scale back on some operations and put others behind pay walls in a bid to lower their costs, because licensing costs are a big chunk of their costs of sales.

MICHELE PAGE: Yes.

BARRY SKIDELSKY: And just by way of contrast. Spotify,[25] another online music service, is a mixed advertising premium business model, which I believe has three tiers. There's a free with ads, then there's what they call unlimited for like $5 a month that does not have ads. And then there's a premium for like $12 a month, where not only are there no ads, but you're able to move the content around onto other devices.

MICHELE PAGE: Right.

BARRY SKIDELSKY: Different strokes for different folks.

MICHELE PAGE: So VEVO is strictly for now, non-downloadable, a streaming experience. However, you can control the content in lots of different ways. It keeps your history. If you're sitting there and you just say oh, I want to see the new Usher video or something, you'll play that and it will come up with like a Pandora-sort of Gnome, other suggestions for you in that vein that you might like, and it will just go on a continuous play of videos that you haven't chosen, but that feature is only available on VEVO.com on VEVO's owned and operated site. If you're on YouTube, it's just à la carte, select one at a time to view.

There is a VEVO app, you can view them on your phone. You can view them on your tablet. So you can take them with you and you can have it on your computer, and on your television, if you have say a Roku box or any kind of Internet connection hooked up to your television.

And in terms of sharing, you can either watch VEVO in private and go through videos and look at fun ones from the '80s and '90s, or you can turn your social sharing on and share it with all your friends, or certain friends, or "remember this one, you're not going to believe what I just saw," you know. So it becomes sort of a fun—that's sort of the mixed tape analogy of putting things together and either giving someone a song or giving someone a list of songs. Like, "Listen to this in a row. Isn't this perfect, doesn't this remind you of twelfth grade?" You know, you can do things like that.

AUDIENCE QUESTION: Just a question, with the changing economic paradigm in the record industry, no more record stores. Major decrease in album sales, of course, where we know that most of the major labels, including the Sony's and Universal's, would be not profitable were it not for their publishing divisions, which is the only division that's providing revenue now.

So do you see a day where they will no longer be able to afford making these high quality premium videos, which are expensive to produce, which is the lifeline obviously of what you are doing?

Clearly an independent label would find it hard to justify the cost of making these videos for you. Do you see where your economic paradigm might change where you have to make enough revenue back to the label to justify their making the cost of these videos, since again, they're not driving album sales anymore, they're driving single sales? The economics of which, of course, really don't work.

MICHELE PAGE: It's very true. And that is a hot button question right now in the industry. And having worked in records and publishing, everybody is talking about that.

You know, this is my own opinion, is that you know, record labels are almost like investors at this point. You're always going, I think, to need a record label, because they have money. And what's happening is they're signing fewer acts. They're putting more marketing and promotion behind that which they do sign in the hopes of not just throwing against the wall and seeing if it sticks, which was like sort of the old model, but really finding someone, nurturing them and ramming them down people's throats with all those marketing and promotion dollars.

Hence, they become stars based on, as you see what's happening these days, one song that may or may not have been written by the artist, hence, the publishing dollars continue to flow.

The great thing about publishing is if you have a good catalog, like I used to work with the Motown catalog or even just the "James Bond Theme," that's the gift that keeps on giving. You know, it's one song. But the writers get paid for every use, whereas artists may not.

It's very interesting and we will see. And you know, record labels, some people are just starting to think of them as banks almost, where you borrow money, you make some music, they help you to the best of their ability, they push you through, and then the hope is enough singles are sold and tour tickets are sold. That's where a lot of money comes in. And merchandise is sold. I want my Britney Spears T-shirt. I want my Britney Spears handbag. I want to buy her fragrance. There's all these different connections now and record labels are getting pieces now of all that stuff, 360 deals which was not the case.

So there's money being made, but in completely different almost non-artistic ways, you know, off of people's clothing lines, instead of the actual song that makes them famous, that makes them household names, where the video just really helps to sell them to that coveted 18 to 35 demographic, which is VEVO's zone.

So I was telling you, this is sort of what the VEVO page looks like, make a playlist, share with your friends, access to artists, connecting music to life, programming is what VEVO takes very seriously. There's three pillars to it. Music video, which again is the pre-existing, labels make them, they pass them through.

The original programming, like Tour Exposed,[26] where you get to go behind the scenes and on tour with certain popular artist or not popular artists. We have a program called Lift[27] that spotlights sort of unknown artists that those label dollars are trying to break. And we've broken a lot of people globally on this Lift program that people just sort of stumble into.

Other syndication deals we have that are—and content deals we have—that are proving very lucrative just in terms of music appreciation and dollars is something like, Live at Letterman,[28] which no one may have heard of, but if you go on Live at Letterman on the VEVO site, you'll see—you know, if David Letterman has a musical guest, which he does every night, sometimes for certain musical guests, we just did Adele, we've done the Killers, we've done—I went to Kiss, which was unbelievable. They were in full costume in a 300-person theatre playing like it was an arena, being webcast live by VEVO, and also captured, so you can watch like nine videos of Kiss playing live. People win tickets to go. It's filled with fans, it's a super small venue, and you're bringing fans and artists together and then capturing the live performance on video. So it's live webcast for people to see right then and there, and also captured to see later.

So the business model for VEVO now includes music videos, exclusive premiers, originally produced series, exclusive concert events; live and on demand, intermittent access to artists through interviews, and more especially through this certified program, where you really are connecting fans and celebrities. And sometimes we're now starting to have celebrity fan and editorially curated playlists.

So we're starting something called VEVO TV, which I'll tell you about, but if we've come up with a better name internally—the whole company's trying to think better names for this thing—you win a right to curate an hour on VEVO TV with whatever videos you want.

So I'll move you through—we're moving towards the end, just some of our stats really quick. This type of business model—and again, VEVO is the number one premier video sort of force at the moment—we get 53 million individual viewers per month in the U.S., which is a lot. And then globally, we have 233 million unique visitors per month, which translates into four billion views per month.

So of all our videos, when you put them all together in a big pot, they're viewed four billion times per month by about 233 million unique viewers. And that distinction is important, because if you've heard of the Gangnam style video that was a runaway success, it hit over one billion views.[29] Does not mean one billion people watched it. My kids watched it at least 300 times, so, but that's an important distinction.

So in closing, here are the brands I was talking about. Microsoft, McDonald's, Pepsi, American Express, Coke, adidas, everybody sort of wants to try to get in and figure out great ways to interact with getting into the music video monetization that's now happening. Thank you very much.

BARRY SKIDELSKY: Thank you, Michele. Next up is Chris Harrison, Assistant General Counsel of Pandora. Before joining Pandora in early December 2012, Chris was General Counsel at DMX, where he had previously been VP of Business Affairs and COO.

He represented DMX before the Second Circuit in its successful appeal of *BMI v. DMX*,[30] upholding district court awards in favor of DMX.

He has also represented record labels, such as EMI, and music publishers, such as Sony / ATV, and enforcement actions against unauthorized users of copyright works.

Just one comment I'll make because I heard myself say Sony / ATV. As some of you may know, Sony / ATV has pulled away from the PROs. And in fact, there was a recently announced deal, which you could probably talk about, Pandora and Sony / ATV. So with that, please welcome Chris Harrison.

CHRIS HARRISON: Thank you all for having me. So I'm also going to disagree with one of Barry's introductory comments about the law lagging behind technology. I have the pleasure of being an adjunct professor at UT's Law School, where I teach a music law seminar. And one of the areas that I focus on in that class is how the Copyright Act lays over technology. And particularly how as new businesses or existing businesses try to understand how to monetize their business ideas, so more from the content users' perspective than the content owners' perspective. How the Copyright Act overlays, and what rights are required, and where you get those rights, etc.

In one area it appears to me at least, and speaking as Chris Harrison attorney, not as a voice of Pandora, it appears to me that one area in which the law was significantly ahead of technology is the Digital Sound Recording Performance Rights Act.[31]

And if you'll think back to 1994 and 1995, when this law was enacted, there was no such thing as iTunes. There was actually no such thing as Napster.

If you think about—my father and I are techies, he was always buying the newest computer. Right around this time he bought the first 386 processor laptop—had a monochrome screen that was about four inches high by about nine inches across. Weighed about 13 pounds. We all know that the nuclear launch codes are held by the President in a device called nicknamed The Football. That's what we ultimately ended up calling this laptop, because it was so heavy and cumbersome, but it was at the time state of the art.

You know computer memory, right? So I graduated from college in 1990. The first word processor I had had no internal memory. All memory had to be on a disk. I would say by way of comparison that my iPhone 5 has 16 gig, or 32 gig, or 64 gig. I actually have no idea how much memory my iPhone has, because I don't have to. Because by the time I was deciding whether I needed 32 or 64, the Cloud service came out and so I had my entire music collection on my phone, as long as I'm connected.

Also '94, the connectivity of the average consumer was exclusively dialup. And in fact, it wasn't just exclusively dialup, it was a walled garden. So when you went to AOL, you could see AOL content, but that was it, you weren't allowed outside of AOL's garden.

It wasn't until significantly after that that you actually had access to the World Wide Web. That speed, that dialup speed—there's actually, speaking of advertising, and I'm a new Xfinity Comcast customer in Oakland, and their high-speed Internet service is much better than my AT&T DSL in Austin, so I guess I'll apologize to AT&T people.

There's a great Comcast ad out now, where there's a little kid, he's like 14, and he's talking to his younger brother, and his younger brother's friend sitting on the couch, and he says, "You know, when I was your age, it took us a minute to download a song, that's 60 seconds, you know my back still hurts from that." Go back to '95, it took a hell of a lot longer than 60 seconds to download a song, and that's if you could find one, because Napster wasn't around yet.

So I already showed my iPhone. Obviously in '95 there's no such thing as smartphones, there's no such thing as tablets. All of the way that VEVO is distributing content was essentially non-existent in 1995. And yet, it's in that environment where it is a notion of a celestial jukebox where everything is going to be available immediately on demand, and record sales are going to disappear. In the sense, this may be the only time in history where Congress accurately foretold the future. But part of the problem with fortune telling is the implications that that has. It's Heidegger's cat, right? I mean you look into the future, but part of the problem is you're actually influencing the outcome of the experiment.

So I say that as a way to bring up sort of my past experience and my current experience, and hopefully shed a little bit of light on how business models are changing, not only for those of us who consume content, or who provide content for consumption, but also for those who create that content.

So as Barry mentioned, my first experience in the music business was at a little company called DMX. DMX is a commercial music service provider. And yes, that means we are like Muzak, only different.

Actually all of the music you hear in the public spaces in this Hilton Hotel is probably provided by DMX. I left the company in June of last year, so to the extent things have changed since then, I wouldn't be able to comment.

But one of the things that occurred shortly after the company I was working for acquired DMX out of bankruptcy was we began looking at the ways in which businesses, our customers, were acquiring the music that they played in their stores. And what we found was we competed a lot against free.

You've heard some other industry, RIAA, talk about competing against free. You know, you walk into a bar or a restaurant and the sales rep would walk in and say, "Hey for $50 you can put a box—oh, actually you got to pay $400 for the box, but then for $50 a month you can get music that we program and you play in your store." And the restaurant owner goes, "Yeah, but I've got one of these, and it's got all the music that I like, and I plug it into my stereo, and I don't pay anybody anything after I've downloaded the songs from Napster." Or if they're real upstanding people, they've at least paid for the music through iTunes.

So we've found that there was a significant problem with enforcement of copyright that created an environment where our ability to charge the prices that made our business profitable was very difficult.

So between the time that I started in 2005 and ultimately the ASCAP and BMI rate decisions went up to the Second Circuit in 2010. And this is part of the public record, so unfortunately I'm not giving you any inside scoop here. About 35, 40% reduction in revenue went from almost 600 people when we bought the business, to about 330 when we were all said and done.

So part of what DMX's direct license strategy was about was a recognition on our part that content acquisition costs represented a significant cost of our goods sold. Our revenue on a per customer basis was declining, and at the time both ASCAP and BMI were asking DMX to pay more for the public performance licenses than DMX had paid historically. And our response was essentially, we have to create a new model for content acquisition because it's not long term viable for a business whose revenues are declining to continue to pay a greater and greater share for content acquisition.

Having said that, some gentleman was raising the problems that the record industry has. So 1995, primarily selling physical goods, record labels get about $10 wholesale for a CD.

Fast-forward to iTunes, now record labels are getting 70 cents wholesale for a single that they sold. Fast-forward to the launch of Pandora. Now record labels are getting some fraction of a penny for every song that a person listens to.

And this occurs in the span of a decade, 11 years. I defy anyone to come up with a business model that goes from $10 wholesale revenue to a fraction of a penny per song per listener and maintains profitability.

I mean, I am as sympathetic as anyone to the plight of the record industry that has had its cost structure turned on its head. Now, there's lots and lots of blame to go around. And there are folks far smarter than I, far better informed than I, who have written very good books on both sides of that ledger. But at the same time that DMX was faced with declining revenues, so was the record industry.

So what is striking I guess to me as we look at how the content users have gone about trying to acquire the content that they need, is the cat and mouse game that is played with the content owners.

So Todd and I had the pleasure of working together when I was General Counsel at DMX, and we litigated both the *BMI* case and the *ASCAP* case.

Todd and his firm also represents SiriusXM. SiriusXM launched probably the first significant attempt to license directly from record labels, the public performance rights for digital audio transmissions.

In many ways, I think, because I've got a big ego, SiriusXM decided to try and license directly for exactly the reasons that DMX did. We had proven out a model where we could go to market and ask for a reduction in rate in exchange for the promise of more performances. So bigger piece of the smaller pie. That had been successful in both district courts and appellate Second Circuit. And SiriusXM, again my opinion, looked at the Copyright Royalty Board and saw an opportunity to license content from record labels directly and use those as benchmarks for the Copyright Royalty Board judges to consider in their rate setting.

That decision came out three weeks ago now, and lo and behold, that's pretty much what happened. The Copyright Royalty Board found all sorts of problems with those direct licenses, but ultimately, factored those direct licenses into the rates that they ultimately set.

The cat and mouse game though gets played by the content owners. So at the same time that SiriusXM is going out and trying to license record labels directly, record labels are banding together very tightly around SoundExchange. And SoundExchange and A2IM[32] and a number of other organizations were very vocal and very public in their attempts to dissuade record labels from doing direct deals precisely because they were concerned that those deals would turn up as benchmarks in the CRB proceeding and have a downward effect on rates. Cat and mouse games continue and SiriusXM sues SoundExchange for an antitrust violation.

Over on the publishing side, I had the pleasure of negotiating the first direct license with a major music publisher for essentially a blanket license for public performances of their works. It happened to be Sony / ATV. Be careful what you wish for. That was 2007.

Fast-forward to December 2012 and one of the first days, actually the first day on the job as Assistant GC for Pandora, I am told that Sony / ATV has told ASCAP and BMI that they're withdrawing their rights for digital performances and that digital performances will have to be licensed directly from Sony / ATV. And because Sony / ATV sort of bought EMI through a consortium, and I believe Abu Dhabi is in that deal too, everywhere.

At the same time that the record labels are banding tightly around SoundExchange in an effort to prevent potential direct licensing, to prevent potential benchmarks from being introducing into rate proceedings that might ultimately reduce rates, you have, I believe, now the largest music publisher in the U.S. withdrawing its rights from the performing rights societies and saying, we won't license, you can't get a license from us on a blanket basis from ASCAP and BMI, you have to do a direct deal with us, because they believe they can get a higher rate by doing a deal directly than by going through the performing rights societies.

BARRY SKIDELSKY: So that complicated fragmented world of music licensing is getting even more fragmented.

CHRIS HARRISON: It is, and I'll leave with an observation, which is when I was trying to look up the numbers, the VEVO slide, four billion views worldwide. I know Pandora released its metrics, I don't remember what the number was, I think it's like 13 or 14 billion performances last year in the U.S.

Pandora distributes a lot of content. They represent, depending on whose numbers you are looking at, about 7% of all radio listenership in the entire country. 62 million monthly users of the service, and that number continues to grow.

Without pre-judging the response, can anyone think of another industry where there is a single service with 62 million loyal customers and no one on Wall Street, no one in Silicon Valley goes, "You know, I'd kind of like to have a piece of that 62 million audience. Why don't we spend some money and come up with a competing service?"

There were rumors Facebook was going to do it. Rumors that Apple was going to do it. Rumors that Google was going to do it. They certainly have deep enough pockets to afford it. But today there's Pandora and it's 62 million users, and of all the smart money in Silicon Valley, and all of the smart money on Wall Street, and all of the smart money on Main Street has decided that it's not a good investment to try and take some of that market share away.

You know, I have my own personal feelings about what that says, but I will ask it rhetorically, as I'm Assistant General Counsel for a publicly traded company. Thank you.

BARRY SKIDELSKY: Thank you, Chris. Chris' remarks brought to mind an issue we have not mentioned yet, and that is the proposed legislation on both sides of the coin, if you will. Internet Radio Fairness Act,[33] which has to do with the standards. Are we talking about the 801 versus the willing buyer, seller. When it originally started, I guess, there was no willing buyer / seller to look at in order to have benchmark or just limited circumstances. And on the other side of the coin in the direct licensing realm, ClearChannel and Intercom, a couple of big publicly traded broadcasters, have done direct license deals where they have voluntarily agreed to pay performance royalties for over-the-air broadcasts, which as you know, is not required in this country, unlike most of the rest of the world, in exchange for a more favorable deal on the other side, the digital side.

And that's the only comment I wanted to make, that there's pending litigation. That I agree with you that the '95 Act certainly was present in a way. And so when I said the law generally lags technology, that remains true, but in that instance you're correct.

Our last speaker is Jean Cook. Jean is a musician who has performed in over 50 albums. She not only records but she tours regularly with John Langford, Beauty Pill, Elizabeth Mitchell. She is also the Founder and Director of Antisocial Music, a New York-based new music collective as well as Director of Programs for The Future of Music Coalition (FMC), which is a national non-profit that works to improve the lives of musicians through research education and advocacy on policy issues that directly impact the ability of musicians to reach audiences and make a living.

For the last two years, Jean has directed the FMC's artists' revenue streams project, the groundbreaking initiative offering data-driven insight into U.S. based musician income. Please welcome Jean Cook.

JEAN COOK: I'm just curious, of the people who are in the room, how many of you represent individual artists? Oh, cool.

BARRY SKIDELSKY: For those of you playing along at home, that was most of the room.

JEAN COOK: So I bring a different perspective to this conversation. We've been hearing a lot from services, new business models. We also heard a little bit of the label/publisher perspective and when they talk about razor thin margins, they mean razor thin margins.

Now, I'm going to talk about the people who end up getting what else, what ends up kind of trickling down after the razor thin margins, which is my community. It's the musicians and the composers.

So our recent research is—what I'm going to present to you is a presentation that I prepared for the Future of Music Coalition's Annual Summit in Washington, D.C. And the audience is generally for musicians or people who work with musicians, but also I think has a lot of relevance to today's presentations as well.

So this is the latest in a series of presentations and data memos and case studies from the artists, revenues, streams project, it's a massive data collection effort to understand the various revenue streams for individual musicians in the United States. It's the first time it's ever been done.

It started when we—here you can see the revenue streams that we asked artists about. It guided the framework for the research. And this is kind of what drove the data collection effort from thousands of musicians and composers. We had about 5,300 musicians and composers take the survey.

So these revenue streams have been divided up into different buckets for composing, recording, performance, work as a session musician, there's brand related income, patronage, other income as well. This is published along with our reports at money.futureofmusic.org.

So this had originally started because we sat down and we were trying to figure out, well, what are all the different revenue streams—the money that actually ends up in a musician's bank account? We came up with 29. And we went online and we were like "these are the 29 revenue streams that we think exist." And because it's the Internet, a lot of people came by and, they're like, "actually you forgot about this income stream, what about that income stream?" And in the end we ended up with about 42. And that's what ended up driving the inquiry process of our research.

So this presentation's in three parts. This presentation was put together because we wanted to talk about how artists actually get paid.

A lot of people know when you buy tickets to see a show or listen to the artist's music online or on the radio, well, the artist eventually benefits from your support somehow somewhere, but how exactly is a mystery to a lot of folks. And the details are either incredibly complex, or vague or both. And as it turns out it is mysterious, because it is very complex.

So the first part of this presentation is going to ask the question of who decides how much artists get paid. And then we're going to take a look at some of the details about how rates for a few of the more popular income streams are calculated and eventually distributed. And then I'll just close with a few takeaways from musicians that offer a little context for the information in this presentation.

So the first question is who decides how much the artist gets. So this gives you a sense of how the money generated from music trickles back to the artist of the 42 revenue streams we've identified. Some of them are negotiated by the artist directly in one way or another. Like a music teacher can usually set their own rates for lessons. Sometimes the rate is negotiated by someone on behalf of the artist, like a booking agent who negotiates a guarantee, or a percentage deal with a concert promoter, and then sometimes the rate is set through collective agreements representing a group of creators, like a union, or ASCAP, BMI or SESAC. Sometimes the rate is set by a process that's outlined by law, and sometimes it's set through private negotiation.

So there are three basic categories of stakeholders who negotiate how much artists can take home at the end of the day. These are the middlemen who negotiate the rates that the artists get paid.

So the first group is direct agents, these are the artists' managers, booking agents, attorneys. A lot of you in the room are probably playing that role at one point or another. These are people who work directly on behalf of an individual artist, and they represent the individual artist in negotiations, and are usually paid through a percentage of the artist's overall income, or a percentage of the deal that they source and/or negotiate on the artist's behalf.

Next is the record labels and publishers, these are the investors, kind of along the lines of what we were talking about earlier. They provide up-front capital to the artist in exchange for control over the artist's copyrights. They distribute and promote the catalog and pursue licensing opportunities.

And then the third group is collective management. These are the groups that have performed to collectively manage artists' rights, the PROs and the unions. So entities like ASCAP, BMI, and SESAC exist to negotiate performance rates for compositions and collect and distribute the income to their composer and publisher members.

SoundExchange does the same thing for artists and sound recording copyright owners. The American Federation of Musicians does the same thing for performers and recording musicians and SAG/AFTRA represents recording vocalists.

For most, if not all, of the copyright related income streams, the rates that artists get paid are negotiated by and with the record labels and publishers, or by the collective management groups.

So how are the rates determined with these middlemen and what are is their ultimate responsibility to the artist, because that's what I would want to know.

So as I mentioned before, it's impossible to generalize the answer to that question as we are limited in time, so I'm going to take a look at how the details work for three specific examples: Spotify, iTunes and Pandora. So here you can see the flowchart of the money that goes from fan to the music service and then to the middlemen and back to the artist.

And since I'm privileged to have someone from Pandora here, I'm very much looking forward to your comments, because I'm sure I get a lot of things wrongs.

CHRIS HARRISON: Been there. Just remember, been there six weeks, so.

JEAN COOK: So the name and part two of this presentation is that the Devil Lives in the Details, and we'll be looking at that particular area of the kind of complex transaction that's happening there.

So two caveats before I show you the slides that I made to explain the rates. For the purposes of this presentation I tried to focus on specific and essential aspects of the rate setting. Who is at the table, and the basic nature of the deal structure for three specific types of uses.

And for an artist audience I have to remind them that copyright law treats compositions and sound recordings differently, but I don't have to do that here. But because copyright law treats things like interactive and non-interactive streaming differently, just who is sitting around the table for these negotiations varies from service to service.

So when digital music services, for example, want to use an artist's copyrighted work, they have to deal with labels and PROs, or aggregators, or unions to negotiate what the rate is to be paid.

So here we go. It's Spotify. So on one side of the negotiating table we have Spotify, which is an interactive streaming service that many of you—how many of you use Spotify? I'm just kind of curious. Before we were talking about the three different levels. Are any of you premium users? Or how about just like I pay a little bit of money users? Oh okay, I was just curious.

So on one side of the negotiating table we have Spotify, that means that as a user you can choose what songs you want to listen to and listen to them as many times and whenever you like.

On the right side we have the sound recording copyright owner on top, that's the labels and the aggregators, and below we have the composition rights.

So if I'm Spotify, I'm going to go through a private negotiating process with every record label and aggregator that controls the sound recordings that I want to use. And the deals with each label or aggregator may be different from each other.

By the way, none of these rates that are set have been published that I'm aware of. Then I'm going to go to the PROs and get a blanket license for the compositions that are streamed on my site. Plus, because it's an interactive service, I'm also going to negotiate with each publisher for mechanical license.

The NMPA, which is the National Music Publishers Association, can sometimes be helpful and negotiate on behalf of its members in times like this.[34]

So how was that, does anybody know if I did okay? So next we have iTunes. So here we have iTunes on one side of the table, and the labels and the aggregators on the other side. Again, these deals are private, though I have heard that iTunes deals don't tend to vary terribly from deal to deal, unlike Spotify.

The composer money is much simpler for this kind of use, which is a simple download, it's a statutory mechanical rate that's the same for everyone. And instead of dealing with the publishers like Spotify does, iTunes can just give the money to the labels to pass on, because it's a set rate.

Was that all right? Okay. I think I'm the only person in the room that's not a lawyer, so it's a little intimidating, you can imagine.

So the last one we'll look at is Pandora. So now rather than doing a private deal with all of the labels, Pandora participates, as they mentioned before, in a public rate setting process with a Copyright Royalty Board every four or five years to determine the rate.

So Pandora submits evidence and testimony about why their business is expensive and difficult, and why the rate should be lower. And SoundExchange submits evidence and testimony about why artists have it so hard, and Pandora shouldn't be in business without artists, so the rates should be higher.

Then the judges review the evidence and make a ruling on the rate that Pandora will pay.

So while this is happening, Pandora and SoundExchange also have the option to reach their own settlement agreement of what the rate should be, which will then be reviewed and approved by the CRB so the rates can apply to everyone. And this rate is published on SoundExchange's website.

On the composer side, Pandora gets a blanket license for non-interactive stream from ASCAP, BMI and SESAC, and it's a standard formula that's based on ad revenue, user revenue and number of users, and the rates are published. Was that okay, Chris?

CHRIS HARRISON: Yes.

JEAN COOK: Okay. So at the beginning of the section I asked the question, how are the rates determined with these middlemen, and what is the responsibility to the artist with the respect to the artist's bottom line?

So now it's part of the second part of the question. As it turns out, not all middlemen are the same. While they play similar roles in the negotiation of the rates that artists are paid, there are some important differences between labels and publishers, and collective management agents.

So let's start with what they have in common. They both simplify the licensing process by negotiating on behalf of a group of artists, a bunch of labels, or an entire catalog of work.

So music services don't have to try and negotiate directly with millions of artists, and artists don't have to chase down every service when they use their music. They also take responsibility for finding and paying the artist once they receive the money from the digital services, that's another burden that's relieved.

So here's where they differ. PROs and unions ultimately answer to their artists and songwriter members, arguably. Most have mechanisms in place that allow the artist to have input on how these organizations are run and how they do business.

Protecting the artist's share of the income streams that they negotiate and collect is dictated by law in the case of SoundExchange. And with ASCAP, BMI and SESAC, it's written into their charters. This is in contrast to labels and publishers.

Artists rarely have substantive oversight over how the label or publisher will negotiate on their behalf. And on the back-end, labels can often be unreliable payment agents, as many of them will cross collateralize the income they negotiate and collect on behalf of artists against the debt that the artists usually owe them.

In other cases, major labels have used their ability to control massive catalogs to extract additional income in the form of equity stakes from services, which, well, time will tell whether this additional income will ever be seen by the artists or if it'll make its home in the major labels' general coffers.

So where does this leave us? We started by wanting to talk about how artists get paid. We dove deep into the mechanics—well it's deep for the artists, probably not very deep for you—mechanics about how the royalty rates are determined for three popular services. And now as we head into the home stretch of this presentation, I'm going to roll back to 150,000 feet and focus back on the artist and give some context for how musicians and composers fit into this picture.

So where do all of these particular income streams, iTunes, Spotify, and Pandora fit into the artist's big picture anyway? While it may be a relatively small portion of an artist's income, our research tells us that every little bit counts.

If you were to make a pie chart that included all of the revenue that a typical musician earns, which isn't going to be all 42, it's going to be smaller, maybe 17, or 15, or something like that. It's probably not going to look like this. It's more of the time going to look like this.

So for this particular musician, you know, like 30% comes from live performances, and then 29% comes from having a salary in a band. So these income streams are more significant in some ways than, say, being a producer, or an actor, or session musician, but that's not to say that the smaller income streams aren't important. They're going to spend more time maintaining the larger income streams, but most of the musicians that we've spoken to in the course of our research have talked about how they rely on every income stream, no matter how small it is. And it's only through these combined income streams that they can make ends meet. But not all income is created equal. And this is actually an interesting point to bring up in the light of something that was said earlier, about how tour tickets and merchandise can be a source of income for labels.

With artists, I mean often when the labels are taking it depending on the structure of the deal, they may not be taking expenses into account. So while this particular artist—back to this artist, while they made about 30% of their income from live performance, you may say that their live income from live performance based on this chart is five times that of the income from their PRO. But this is looking at gross numbers, and all of our surveys are actually gross numbers.

So when you take expenses into account, you may find that their net income from the live performances is much closer to their ASCAP money. So the smaller income streams have more value when they don't have expenses attached to them.

Touring income is really interesting because it doesn't scale the same way copyright income will. So as tours get bigger and longer, the expenses get bigger as you hire more staff and accumulate more expenses. And when you stop touring you stop earning money.

On the other hand, copyright-related streams, whether it's income from synchs, or public performances, or sound recording royalties, which is sometimes referred to by artists that we've interviewed as "mailbox money," they have a shelf life much longer than an artist's career in many cases.

So then the final point about artist income, which is that most of the income streams of musicians are somewhat interdependent. It's because they're touring that people are promoting their music and encouraging things like licensing, and radio airplay, which results in more PRO money. Touring also helps merchandise sales, radio airplay helps touring and record sales. Making more records can sometimes give you a reason to tour.

The revenue streams rely on each other. So successful artists are able to leverage them against each other.

So this brings us to the concept of leverage and its role in artist income. But what does that term really mean? People in this room don't really need me to explain it, but I'll go ahead, because some of these are pretty funny examples.

Leverage is a pretty broad concept, it can apply in many different situations. An artist who owns his or her own masters in publishing has more leverage than the artist who is beholden unto a label and / or a publisher. Labels are banks that have leverage with some artists simply because they can advance cash.

Music services gain leverage with artists and labels when they start to get traction and have a critical mass of users. Artists gain leverage when they collectively manage their rights. In other cases with valuable catalogs, as we talked about with Sony / ATV, they can gain leverage when they choose to give up control to collective agencies and negotiate their own deals. But if we really want to talk about leverage, what we need to acknowledge is that major labels and major publishers have a lot of it, and the artists don't. But I didn't know if I needed to say that, but I'll just say that. Artists don't have a lot of leverage.

Through their legacy catalog and existing roster they control access to vast amounts of valuable recorded work and compositions. And even in this age of ubiquity and talk about the death of the major labels, their power has not diminished in this area.

This is a fundamental dynamic that has and will continue to shape all negotiations about music rights for the foreseeable future.

While new digital music services want to pay the absolute minimum they can get away with and want the licensing process to be as easy as possible, artist and copyright aggregators, and collective management bodies, want the rates to be as high as possible. And in the case of the majors, they have the leverage to force a conversation about the material difference between a stream and a download, and a tethered stream, and a ringtone, and an audiovisual use, and an interactive use, and a non-interactive use, and the list goes on and on.

So the road to friction was licensing. The road to that friction was the licensing process of the future that many dream about as rocky and difficult and expensive and long. It's also an excruciatingly incremental process.

So if the last takeaway was about how leverage has an impact on the landscape for negotiation, this third takeaway is about the artist, and looking at where they fit into all of this.

So in the examples earlier in the presentation we described the rate setting process for a few different digital music services. Artists have different levels of oversight, depending on the type of rate setting process. And there are opportunities to become involved that a lot of artists may not know about.

For example, when setting the rates paid by Pandora for how much performers get paid, as in many statutory rate setting processes, there's a public aspect of the process through the proceeding at the Copyright Royalty Board. Any stakeholder can participate in the proceeding. Any participant can file testimony about how they think the rate should be structured, and submit evidence to support their position. And if artists disagree with how SoundExchange is representing them, they have the ability to become a participant and file their own testimony, which will theoretically be considered by the CRB judges.

In the case of the blanket licenses offered by ASCAP, BMI and SESAC described before, as members of the PRO, artists theoretically have the ability to give feedback directly to the PRO on the rate set.

In the cases where the artists are unhappy with the PRO rates, they can remove their catalog and pursue direct licensing with music services for their catalogs.

In the case of private deals though, artists have limited recourse if they're unhappy with the rate that's agreed upon by music services and the middlemen who control the artist copyrights.

There's very little transparency about the process and the rates are rarely even published, in contrast with the CRB process or the blanket licenses offered by the PROs.

Because the details of the deals are private, there's no way to know for sure how much artists are supposed to be paid. Also, there's very often little accountability in the recording when the labels distribute the royalties that are paid to them. So that's not to say the private deals are always bad. There are times when private negotiations are the best way for artists to get the most value out of their works, but you have to be at the negotiating table to benefit from the process.

I think I'm running out of time, so this is the last couple of slides. Despite their differences, there are a few things that music services and rights holders can probably agree on. As this industry moves forward, I think that there's broad consensus that more efficient ways of licensing is a good thing.

No one thinks it's a good idea for music services to have to chase down all of the individual publishers for every song they want to use that isn't in the Harry Fox Agency catalog. And I doubt anyone ever thought to themselves, although maybe this room would be the exception, "Gee, I think there should be 10 different mechanical rates," which there are.

We've heard every stakeholder at one time or another say that they want individual artists to get paid. There's probably also consensus that accurate payments and accountability on all sides isn't the worst thing in the world. And transparency is one of those words you hear again and again at tech and music conferences.

So these are principles that can perhaps guide us. Those of us who are trying to figure out the next steps for more efficient licensing processes of the future, as well as some suggestions for middlemen who are interested in improving how they serve the artists that they represent.

The last slide here is just information about our research is here. And then also Chris had mentioned that one of the draft papers that's coming out of the research that we've done was just released on SSRN[35] a couple of weeks ago. That's my favorite table from that paper.

What it does is it takes copyright-related income for musicians, divides it up by genres, because I told you we had 5,300 people who took the survey and they were all in different genres. And then also by income, the income that they make. So the top 1%, how much of their income is relying on copyright is black, and then kind of mixed is gray, and then the light color is indirect. But that's just one of the fabulous charges that was in the report that was released and that's the link to it. That's it for me.

BARRY SKIDELSKY: Thank you, Jean. And my thanks to the panel. I'd like to ask all of you to please give them all one last round of applause. I think today has been a very interesting day. We've all learned a lot. It's been both informative and entertaining and if there's anymore questions, anybody would like to ask now, speak up or forever hold your peace.

In closing, I'd just like to note in today's complex converging world, changes in technology are driving changes in media and music, involving the creative licensing and distribution of content, empowering consumers with unprecedented choice. We're well on the road to being able to listen to whatever, wherever, whenever and on what device they may want, providing both opportunities and challenges for musicians and other creative talent, business and the lawyers who advise them all.

Legislation and litigation will continue to play an important role. And EASL will continue to do its best to keep you up to date on the latest developments so that you may better serve the better interests of your clients.

I remind you that immediately following this at The Warwick Hotel across the street, EASL is having a reception. It's a kickoff, if you will, of our 25th Anniversary. And as it may have been eluded to earlier today, when you think about the 25th Anniversary, that brings us back if you do the math, to 1988, a quarter century ago, and so as a token of our 25th Anniversary, our quarter century, I have here a 1988 quarter. Brilliant uncirculated, numismatic value, free of charge to anybody who'd like to come up and get one either here or at the reception where I hope to see you all.

Thank you all again.

Endnotes

1. See p. 14 for the actual letter from Governor Cuomo.
2. See p. 123.
3. See p. 129.
4. http://www.milliondollarhomepage.com/.
5. http://www.seedandspark.com/.
6. 8 Tips for a Kick A$$ Kickstarter Campaign, http://www.theproducersperspective.com/my_weblog/2012/08/8-tips-for-a-kick-a-kickstarter-campaign.html.
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NEW YORK STATE BAR ASSOCIATION
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The Theft of the Herzog Art Collection: The Holocaust in Hungary and the Road to Restitution

By M. Elisabeth Conroy

> "With Hitler's death and the end of the war came the end of the Third Reich. In twelve years—not the thousand that the Führer had predicted—as many works of art were displaced, transported, and stolen as during the entire Thirty Years War or all the Napoleonic Wars."[1]

I. Introduction

In a short span of nine months, the nation of Hungary collaborated with the Nazi Regime in the mass murder of half a million of its Jewish citizenry. During the period leading up to World War II, Hungary enacted laws targeting Jews, depriving them of jobs, property, and fundamental rights. In 1944, Hungary sent 437,000 Jewish individuals to Auschwitz-Birkenau with 400,000 dying in the gas chambers upon arrival.[2] Throughout the course of this genocide, the Hungarian government acted in concert with the Nazis in their efforts to plunder jewelry, money, furniture, and art from its Jewish citizens. Today, years after this blight on the Republic of Hungary, the nation continues to deny Holocaust victims their rightful claims to property.

On September 1, 2011 Judge Ellen Segal Huvelle announced that Hungary's reprehensible behavior would no longer be condoned in a post-World War II era. A long-awaited ruling now allows heirs of Holocaust victims to sue the Republic of Hungary. The ruling further stipulates that Hungary and its state-owned museums are no longer immune from United States jurisdiction under the United States Foreign Sovereign Immunities Act.[3] This landmark decision, along with the 2010 *Portrait of Wally* ruling, leads one to speculate whether additional outcomes will prove favorable for Jewish heirs bringing Holocaust-era art restitution claims in the United States.[4]

II. Hungary's Role in the Holocaust

Hungary's 1941 pre-Holocaust census counted 725,007 Jewish people and identified nearly 100,000 Jews who had converted to Christianity living in Hungary.[5] Hungary's Jewish population is credited as being a major contributor to the country's capital development, modernization, and emergence of civil society.[6] In business, finance and trade, and among doctors and attorneys, the Jewish population was represented at a rate 10 times higher than other Hungarian citizens.[7] This level of Jewish concentration in the upper echelons of society was unprecedented in Europe.[8] Given the amount of wealth and property in the hands of Hungarian Jews, it is not a surprise that Hungary began preparing for the "nationalization" of Jewish wealth prior to the introduction of Jewish laws and German occupation.[9]

Anti-Semitism was prevalent in Hungary even before the advent of World War II. Throughout the 1920s, various chambers of commerce restricted access to Jews; university fraternities prohibited Jewish students; and professional organizations created registers of non-Jewish individuals to "purify" various professions.[10] Between 1938 and 1942, Hungary enacted legislation that significantly reduced the number of Jews in professions and industry.[11] These laws stripped Jews of their licenses to practice medicine, law, or engineering, and even confiscated licenses to sell liquor, or goods at the market.[12] By the end of 1942, roughly 220,000 Hungarian Jews had been deprived of their livelihood.[13] Furthermore, Hungary also conscripted Jewish men to fight on the Eastern Front during this time. Approximately 10,000 Jewish soldiers were captured by the Red Army in 1943, while 15,000 Jews lost their lives during the forced military service.[14]

On March 19, 1944, Germany occupied Hungary. Hungary eagerly began to work in concert with Germany to seize the wealth and valuables of the Hungarian Jewish citizens. Several government agencies were created to handle Jewish affairs, the most noteworthy being the Government Commissioner's Office for the Registration and Preservation of the Confiscated Works of Art of the Jews.[15] The agency head was Dénes Csánsky, a painter and director of the Museum of Fine Arts.[16] He assumed responsibility for locating Jewish-owned works of art, coordinating appraisal and storage, and making placement recommendations.[17] In May 1944, the Hungarian government issued Decree 1830/1944, ordering Jews to register all art objects including "paintings, statutes, carvings, folk art, and decorative art objects (such as carpets, furniture, glass, ceramic or porcelain objects), archaeological and prehistoric finds, as well as mineral collections, or book and archive valuables."[18] Since the looting process was orchestrated by the state, the Germans did not significantly benefit from Jewish property seizures in Hungary.[19] However, the German forces occupied luxury homes formerly owned by wealthy Hungarian Jews and routinely plundered carpets, paintings, or tapestries for themselves.[20]

III. De Csepel v. Republic of Hungary

Among the wealthiest of the Hungarian Jews was Baron Mór Lipót Herzog, a Jewish art collector who lived in Hungary prior to World War II. Baron Herzog's family rented land in Macedonia, where they operated tobacco plantations, which resulted in a near monopoly of the tobacco industry in Hungary.[21] The ensuing wealth allowed Baron Herzog to purchase any work of art, regardless of price.[22] Consequently, throughout his life he amassed an impressive collection of over 2,000 paintings, sculptures, and other works.[23] Upon Baron Herzog's death in 1934, his collection was maintained by his wife and then divided among their three children, Erzsebét, István, and András[24] following her death.[25]

The Herzog collection is one of the largest art collections in Hungary and considered one of Europe's greatest private collections, comparable to the Frick Collection in New York and the Wallace Collection in London.[26] Boasting a wealth of Old Masters, Renaissance furniture, tapestries, sculptures, and decorative arts, it numbered 2,500 pieces at the pinnacle of its existence.[27] Some noteworthy pieces included El Greco's *The Agony in the Garden*, Francisco de Zurbaran's Seventeenth Century portrait of *St. Andrew*, and *The Annunciation to Joachim* by Lucas Cranach the Elder.[28] Artists such as van Dyck, Gustave Courbet, Camille Corot, Renoir, Monet, Degas, Velazquez, and Frans Hals were also part of the Herzog Collection.[29]

When the Germans invaded Hungary, the Herzog children hid their art in the cellar of one of the family factories in Budafok.[30] Unfortunately, the Hungarian government and Nazi collaborators discovered the hiding place and inventoried the collection as it was removed from the cellar's chests.[31] The Herzog collection was then transported to Adolf Eichmann's headquarters at the Majestic Hotel in Budapest.[32] At the hotel, Eichmann inspected the artwork and earmarked pieces to send to Germany.[33] The remaining works of art were kept by the Museum of Fine Arts.[34] Today it is estimated that over 40 works of art are wrongfully possessed by the Museum of Fine Arts in Budapest, the Hungarian National Gallery, the Museum of Applied Arts in Budapest, and the Budapest University of Technology and Economics.[35] The aggregate value of the artwork is estimated to be worth in excess of $100 million.[36]

At the end of World War II, in the late 1940s, the Herzog family was unable to find out very much information regarding the state of its collection from the communist regime then ruling Hungary.[37] Even if the Herzogs had learned the location of their artwork, it would have been futile; Holocaust survivors making a claim for property stolen during the war would not have been given a fair trial by a dictatorship that did not recognize individual property rights.[38]

After the fall of communism in 1989, Hungary's government became more transparent to the West. This major political development finally allowed the Herzog family to investigate the whereabouts of the missing pieces of the Herzog Collection.[39] They shockingly discovered that many of the pieces were featured in the collections of the Hungarian National Gallery and the Museum of Fine Arts in Budapest.[40] The paintings were labeled with tags stating they originated "From the Herzog Collection"; however, when the family demanded their return, the Hungarian government denied the requests despite acknowledging Herzog ownership.[41]

After years of failed attempts to recover the stolen works, Martha Nierenberg filed suit against the state of Hungary in the Hungarian courts in October 1999 for 12 paintings that belonged to her mother, Erzsebét.[42] One of the paintings was returned by Hungary, without explanation, but litigation continued regarding the remaining 11.[43] Initially, the lower court ruled that all paintings less one should be returned to Ms. Nierenberg. The court concluded the defendants had not acquired ownership of the paintings through the 1954 Museum Decree.[44] After the Hungarian government appealed the decision, the Supreme Court remanded the case for the lower court to decide whether the defendants owned the paintings as a result of the 1973 Agreement between the United States of America and the Hungarian People's Republic Regarding the Settlement of Claims Agreement (the 1973 Agreement).[45]

The 1973 Agreement was struck on March 6, 1973. Under the terms of the agreement, Hungary paid the United States a lump sum of $18,900,000 to discharge all U.S. claims against the government and people of Hungary.[46]

In Hungary's final decision issued in January 2008, the government maintained that the 1973 Agreement barred a return of the work since the United States already awarded Ms. Nierenberg's mother compensation from the Foreign Claims Settlement Commission.[47] The court further stated that Hungary had achieved ownership status of the paintings through adverse possession.[48]

Despite the fact that the court found the 1973 Agreement to bar Ms. Nierenberg's claim, in actuality it did not. Agnes Peresztegi, lawyer and European Director of the Commission for Art Recovery, a nonprofit organization which helps victims of Nazi art looting, explains that "the Herzog family had received some compensation from the U.S. government, not from Hungary. The 1973 claims agreement did not cover her claim."[49] In fact, Erzsebét Weiss de Csepel received only $210,000 for artwork and property taken from her.[50] Thus, the award from the Foreign Claims Settlement Commission consisted of a small portion of what was owed to her and did not include property restitution.[51]

Throughout the litigation, U.S. senators intervened on behalf of the Herzog heirs, sending letters and pleading with the Hungarian government. Senators Hillary Clinton, Christopher Dodd, Frank Lautenberg, and the late Edward Kennedy were among those who assisted Martha Nierenberg in her fight for a portion of the Herzog Collection.[52]

Despite the major setbacks, the Herzog family persisted in its efforts to seek justice, and in July 2010 brought suit in the United States against Hungary, the Hungarian National Gallery, the Museum of Fine Arts, the Museum of Applied Arts, and the Budapest University of Technology and Economics.[53] The claim demanded the return of more than 40 artworks that remain in Hungarian cultural institutions and asked the Hungarian government for a list of all the Herzog family artwork.[54]

In a monumental decision on September 1, 2011, Judge Ellen Segal Huvelle in the United States District Court for the District of Columbia held that Hungary and its state-owned institutions were not immune from the jurisdiction of United States courts.[55] Judge Huvelle dismissed the Herzog family's claim related to the 11 paintings which were the subject of litigation in Hungary prior to the case shifting to the U.S. court system.[56] The claim was dismissed on the basis of the doctrine of international comity, giving the decision of the Hungarian court effect in the U.S., since the foreign judgment was not in contrast to crucial public policy.[57]

IV. Hungary's Restitution Efforts Post-World War II

In December 1998, the U.S. Department of State and the United States Holocaust Memorial Museum co-hosted the 1998 Washington Conference on Holocaust-Era Assets. The conference recognized the theft of cultural objects in the course of "ethnic cleansing" and genocide as crimes against humanity, and produced a set of principles calling for the identification of Nazi loot, the opening of archives, the establishment of a central registry for displaced property, and other measures to encourage claims by original owners and heirs and to provide a just and fair resolution of claims.[58] Hungary pledged its full commitment to the conference's principles: agreeing to the restoration of art to Holocaust victims and heirs; discussing the creation of a database listing the 60,000 works of art stolen during World War II; and stating that it would appoint a commissioner to oversee the art restitution process.[59]

Furthermore, Hungarian delegates subsequently attended the Vilnius International Forum on Holocaust-Era Looted Assets in October 2000. This conference sought to implement the principles laid forth at the Washington Conference on Nazi-Confiscated Art and to hold periodic international meetings at which experts could exchange views on experiences with the implementation of the Washington Principles.[60] At the Vilnius International Forum on Holocaust-Era Looted Assets, Hungary was the only country singled out for its non-compliance with international norms.[61]

In June 2009, the Czech Republic held the Prague Holocaust Era Assets Conference, which produced the Terezin Declaration.[62] It was noted at the Prague Conference that Hungary had last been applauded for its restitution efforts 10 years earlier in 1998.[63] Since then, Hungary had not taken responsibility for its past, nor had it made a meaningful effort to comply with the Washington Principles.[64] Hungary was in the lowest of the categories, among the countries that did not "appear to have made significant progress."[65]

Since the fall of communism, the successive Hungarian administration has not negotiated in good faith with Holocaust victims and heirs, has denied ownership to claimants, and has engaged in expensive and lengthy lawsuits.[66] Hungarian courts have consistently upheld unlawful takings and have essentially "renationalized Holocaust era looted artworks."[67] Hungary continues to ignore its obligations by not abiding to the principles to which it subscribed with the Washington Principles, the Terezin Declaration, or the resolutions of the European Council.

Despite the promises Hungary has made in the past 15 years at various conferences on Holocaust-era looted art, it still has not set up a historical commission or appointed a commissioner to investigate Hungary's role and participation in the extermination of its own Jewish citizens.[68] It continues to avoid provenance research in its cultural institutions and most importantly, although a few works of art have been returned, nothing of significance has been restored to the Hungarian Jews who persistently fight to have their property restored.[69] Today, Hungarian museums still hold several hundred works of art that were acquired under ambiguous circumstances.[70] This figure includes artwork that was stolen from Jewish victims of the Holocaust. The Hungarian courts have shown outright hostility toward claims for artwork, continue to have no laws or procedures for restitution, and intimidate claimants with litigation costs, delays, technical defenses, and negative publicity.[71]

While Hungary has offered compensation for persecution and certain types of property, it still has not enacted any laws regarding art restitution. The property law that Hungary did enact, restoring property to original owners, was not designed to extend to cultural property, as the government contends that the complexities associated with the valuation of artwork would be too great.[72] However, this is a problem that can be overcome. In light of the Hungarian government's establishment of the Commissioner's Office for the Registration and Preservation of the Confiscated Works of Art of the Jews during World War II, it would be just as simple for the government to create another commission to ensure that the works taken from Jewish owners are rightfully returned.

V. Policy Implications for Future Holocaust-Era Looted Art Restitution Cases in the United States

The ruling of the U.S. District Court in Washington will have a significant effect on future litigants who seek to have looted Holocaust art returned. Since Judge Huvelle rejected Hungary's immunity claim under the United States Foreign Sovereign Immunities Act, the ruling has paved the way for other countries to face similar treatment if presented with a suit in the United States. As the court observed that Hungary had stripped Jews of their citizenship rights during the Holocaust, it found that the state's property theft constituted an international law violation.[73]

As the case enters the discovery phase, Hungary will be required to open up government and museum records. This will mark the first time Hungary is forced to thoroughly investigate its role in the looting of artwork since the Holocaust. Equally important, the court mandated that the property claim be decided on the merits of the case. The court, therefore, rejected Hungary's argument that the Herzog claims should be dismissed based on grounds of forum non conveniens, statute of limitations, the act of state doctrine, the political question doctrine, or that the complaint failed to state a claim upon which relief could be granted. The groundbreaking ruling represented a stark departure from the past, since many U.S. courts have decided Holocaust property claims cases based on technicalities, rather than the merits.[74]

Although the United States has signed international instruments such as the 1998 Washington Principles and the 2009 Terezin Declaration and is urged to decide Holocaust restitution cases based on the merits, it typically has not done so.[75] Since 2004, the Supreme Court has refused to hear several Holocaust-era art recovery cases.[76] U.S. museums have taken preemptive legal actions against Holocaust heirs and survivors, filing suit to "quiet title" and affirm that the statute of limitations bars judicial action.[77] The U.S. courts handling these cases violate the Washington Principles and Terezin Declaration by finding in favor of technical arguments, ruling that the statute of limitations does apply in many cases.[78] Charles A. Goldstein, Counsel to the Commission for Art Recovery, asserts that the courts should respect the Washington Principles and Terezin Declaration when hearing Holocaust-era art restitution cases, as "[t]he statute of limitations was never intended to cover something like wartime mass pillaging of property."[79]

Compared to the inconsistent U.S. rulings on prior Holocaust-era looted art claims, Judge Huvelle's ruling based on the merits of the Herzog case, rather than technicalities, represents a major turning point. It is possible that this could be a shift in the treatment of Holocaust-era looted art cases by U.S. courts and will inspire other district courts to approach cases similarly. The favorable outcome also encourages other litigants to introduce new restitution cases, feeling empowered that states will not automatically be granted immunity from U.S. jurisdiction.

VI. Conclusion

Judge Ellen Segal Huvelle's ruling is a major step forward for Holocaust-era looted art restitution cases. The decision to determine the claim based on the merits of the argument, rather than technicalities, could mean that the world's largest art restitution claim could finally be resolved decades after the collection was plundered. The ruling is particularly significant in light of Hungary's recalcitrant actions over the past 60 years. It is one step toward ensuring that Hungary takes responsibility for its participation in the genocide of its Jewish citizens and the theft of their livelihoods and possessions. David de Csepel explains, "This is about doing justice not only for us but for other families, [n]othing can bring back the lives of those who died in the Holocaust. We will not allow Hungary…to sweep this issue under the rug."[80]

Endnotes

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2. Rudolph Vrba, *The Preparations for the Holocaust in Hungary: An Eyewitness Account*, *in* The Nazis' Last Victims: The Holocaust in Hungary 55 (Randolph Braham & Scott Miller, eds. 1998).
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4. *See* United States v. Portrait of Wally, 663 F. Supp. 2d 232 (S.D.N.Y. 2009).
5. Gábor Kádár & Zoltán Vági, Self-Financing Genocide: The Gold Train, the Becher Case and the Wealth of Hungarian Jews 9 (Enik Koncz, Jim Tucker and András Kádár trans. 2004).
6. *Id.*
7. *Id.* at 11.
8. *Id.* Total Hungarian Jewish wealth during this time period is estimated at $14to $24 billion U.S., measured in present day dollars. The wealth was equivalent to nearly half of the wealth of the German and Austrian Jews at the time, and rivaled the wealth of the three million Polish Jews. Kádár & Vági, *supra* note 5, at 32.
9. *Id.* at 33.
10. *Id.* at 43. The National Alliance of Hungarian Engineers and Architects and the National Alliance of Hungarian Physicians both compiled registers of Christian people in order to ensure that positions were given as "proportionately" to Christians as they were to Jews. *Id.*
11. Martin Dean, Robbing the Jews: The Confiscation of Jewish Property in the Holocaust, 1933-1945 343-44 (2008).
12. Kádár & Vági, *supra* note 5, at 59.
13. *Id.* at 60.
14. Dean, *supra* note 11, at 345.
15. Kádár & Vági, *supra* note 5, at 79.
16. *Id.* at 83.; *De Csepel*, 808 F. Supp. 2d at 122.
17. Kádár & Vági, *supra* note 5, at 83.

18. Complaint at 20, De Csepel, et al. v. Republic of Hungary, et al., 808 F. Supp. 2d (D.D.C. 2010) (No. 10-1261).

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20. Ronald W. Zweig, The Gold Train: The Destruction of the Jews and the Looting of Hungary 64 (2002). If a German officer desired a valuable object not available in a private residence, he would request the particular item(s) from the Jewish Central Council. Samu Stern, head of the council, recalls the Nazis' insatiable greed, "They demanded everything under the sun, from champagne glasses and typewriters to…Watteau paintings." Kádár & Vági, *supra* note 5, at 86.

21. László Mravik, *Hungary's Pillaged Art Heritage Part One: Theft and Destruction 1944-45*, 149 Hungarian Q. BEGINNING PAGE NUMBER, PINCITE PAGE (1998).

22. László Mravik, *Princes, Counts, Idlers and Bourgeois: A Hundred Years of Hungarian Collecting 3rd Part*, Kieselbach Gallery & Auction House (Nov. 25, 2003), *available at* http://www.kieselbach.hu/cgi-bin/kieselbach.cgi?MENUID=HIREK&HIRID=482&&&LANG=EN.

23. *Family History*, *Hungary on Trial: Herzog Family Sues for Return of Art Collection, The Last Hostage of the Holocaust* (2010), *available at* http://www.hungarylootedart.com/?page_id=30.

24. Erzsebét and her children fled Hungary for Portugal in May 1944. De Csepel, et al. v. Republic of Hungary, et al., 808 F. Supp. 2d 113, 122 (D.D.C. 2011).David De Csepel, the plaintiff in the litigation against Hungary, now lives in Los Angeles, and is the grandson of Erzsebét, who died in the United States in 1992. De Csepel, et al. v. Republic of Hungary, et al., 808 F. Supp. 2d 113, 121 (D.D.C. 2011). István Herzog was on a train en route to the Auschwitz death camp when he escaped and was placed in a safe house under the Spanish Embassy. Complaint at 17, De Csepel, et al. v. Republic of Hungary, et al., 808 F. Supp. 2d (D.D.C. 2010) (No. 10-1261). He survived the war; however, his brother András Herzog, was exiled to a Hungarian forced labor camp for Jews in 1942 and died on the Eastern Front the following year. *Id.* Angela Maria and Julia Alice Herzog, also plaintiffs in the litigation, are the daughters of the late András Herzog. *Family History, supra* note 23. They escaped from Hungary and fled to South America during the war, eventually moving to Italy years later. *Id.*

25. *Id.*

26. *Id.*; Jordana Horn, *Holocaust-era Art Theft Suit Demands Report on Hungary*, The Jerusalem Post (July 29, 2010, 12:08 AM), *available at* http://www.jpost.com/ArtsAndCulture/Entertainment/Article.aspx?id=182944.

27. Complaint at 17, De Csepel, et al. v. Republic of Hungary, et al., 808 F. Supp. 2d (D.D.C. 2010) (No. 10-1261).

28. Garreth Harris, *Hungary Sued in $100m Restitution Claim*, The Art Newspaper (Jul. 28, 2010), *available at* http://www.theartnewspaper.com/articles/Hungary-sued-in-100m-restitution-claim/21284.

29. *Id.*; Complaint at 17, De Csepel, et al. v. Republic of Hungary, et al., 808 F. Supp. 2d (D.D.C. 2010) (No. 10-1261).

30. Complaint at 21, De Csepel, et al. v. Republic of Hungary, et al., 808 F. Supp. 2d (D.D.C. 2010) (No. 10-1261).

31. *Id.* Dénes Csánsky, director of the Museum of Fine Arts, was present at the opening of the chests and later remarked, "[T]he Mor Herzog collection contains treasures the artistic value of which exceeds that of any similar collection in the country…[i]f the state now takes over these treasures, the Museum of Fine Arts will become a collection ranking just behind Madrid." Complaint at 21-22, De Csepel, et al. v. Republic of Hungary, et al., 808 F. Supp. 2d (D.D.C. 2010) (No. 10-1261).

32. De Csepel v. Republic of Hungary, 808 F. Supp. 2d 113, 122 (D.D.C. 2011).

33. *Id.*

34. *Id.*

35. *De Csepel*, 808 F. Supp. at 120. For a full list of the Herzog art claimed in the lawsuit, see *List of Herzog Art Claimed in the Lawsuit*, Hungary on Trial: Herzog Family Sues for Return of Art Collection, The Last Hostage of the Holocaust (2010), *available at* http://www.hungarylootedart.com/?page_id=38.

36. Carol Vogel, *Hungary Sued in Holocaust Art Claim*, The New York Times (Jun. 27, 2010), *available at* http://www.nytimes.com/2010/07/28/arts/design/28lawsuit.html.

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38. *Id.*

39. Press Release, Counsel for Herzog Family, Lawsuit Over $100 Million Art Collection Illegally Held by Hungary Will Resolve Largest Unsettled Holocaust Art Claim (Jul. 28, 2010), *available at* http://www.hungarylootedart.com/wp-content/uploads/2010/07/Herzog_Press_Release.pdf.

40. *Id.*

41. *Id.* Hungary's denial of the Herzog family's requests violated the 1947 Peace Treaty between Hungary and the Allies, which provided that Hungary was to act as a custodian or trustee of looted art but under no circumstances could Hungary claim title, right, or interest in that property. Complaint at 23, De Csepel, et al. v. Republic of Hungary, et al., 808 F. Supp. 2d (D.D.C. 2010) (No. 10-1261).

42. *De Csepel*, 808 F. Supp. 2d at 125.

43. *Id.*

44. *Id.* Section 9(1) of the 1954 Museum Decree stated, "At the entering into force of the Legislative Decree hereunder, those museum pieces in the safekeeping of the museum whose owner is unknown, or has left the country without permission, shall be placed into State ownership, pursuant to the Legislative Decree hereunder." *Id.* at 123.

45. *De Csepel*, 808 F. Supp. 2d at 126.

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47. *Id.* at 126.

48. *Id.*

49. Judy Dempsey, *Roadblocks Remain in Case of Paintings Lost to Nazis*, The New York Times (Oct. 28, 2010), *available at* http://www.nytimes.com/2010/10/29/arts/29iht-loot.html?pagewanted=all.

50. *De Csepel*, 808 F. Supp. 2d at 124.

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52. Lawsuit Over $100 Million Art Collection, *supra* note 39.; Letter from Nita M. Lowey to President Solyom (June 14, 2007), *available at* http://hungarylootedart.com/wp-content/uploads/2010/06/CAR-Lowey-Letter.pdf; Letter from Alcee Hastings, Benjamin Cardin, Christopher Smith, Christopher Dodd, Joseph Pitts, Hillary Clinton, & Saxby Chambliss to Minister Goncz (Sept. 17, 2007), *available at* http://hungarylootedart.com/wp-content/uploads/2010/06/CAR-Commission-On-Security-And-Cooperation-In-Europe-Letter.pdf; Letter from Alcee Hastings, Benjamin Cardin, and Hillary Clinton to Minister Goncz (Jan. 8, 2008), *available at* http://hungarylootedart.com/wp-content/uploads/2010/06/CAR-Commission-On-Security-And-Cooperation-In-Europe-Letter2.pdf.

53. Complaint at 2, De Csepel, et al. v. Republic of Hungary, et al., 808 F. Supp. 2d (D.D.C. 2010) (No. 10-1261).

54. Complaint at 2-3, De Csepel, et al. v. Republic of Hungary, et al., 808 F. Supp. 2d (D.D.C. 2010) (No. 10-1261).

55. *De Csepel*, 808 F. Supp. 2d at 145.

56. *Id.*

57. *Id.*

58. Appendix A: Summary of the Organizing Seminar for the Washington Conference on Holocaust-Era Assets 911 (June 30, 1998), *available at* http://fcit.usf.edu/holocaust/resource/assets/heacappe.pdf.

59. 1998 Washington Conference on Holocaust-Era Looted Art, Nov. 30-Dec. 3, 1998, Hungary Delegation Statement, 272, *available at* http://www.state.gov/www/regions/eur/holocaust/heac3.pdf; The 60,000 stolen works have been compiled by László Mravik, Lóránd Bereczky &Magyar Nemzeti Galéria, in Sacco di Budapest, 1938-1949—Depradation of Hungary, 1938-1949 (1998).

60. Vilnius International Forum Declaration on Holocaust Era Looted Cultural Assets, October 5, 2000, *available at* http://www.lootedartcommission.com/vilnius-forum. The Vilnius Forum took place as a follow-up to the Washington Conference. The official Vilnius International Forum website is no longer available.

61. Agnes Peresztegi, *Recovery, Restitution, or Renationalization: The Herzog and Havatny Cases in Hungary*, Prague Holocaust Era Assets Conference, 1, June 26- 30, 2009, *available at* http://www.google.com/url?sa=t&rct=j&q=&esrc=s&frm=1&source=web&cd=3&cts=1330979452443&sqi=2&ved=0CDMQFjAC&url=http%3A%2F%2Fwww.holocausteraassets.eu%2Ffiles%2F200000221-7c159490b0%2FWG_LA_7_Peresztegi.pdf&ei=UyJVT-u6LMjd0QGFn-mVCA&usg=AFQjCNF5qfoiC2LAKMRP695bg-UXpaO_Fw&sig2=fOJbMwoaFEO6ynj1cZCbcA.

62. Prague Holocaust Era Assets Conference: Terezin Declaration, June 30, 2009, *available at* http://www.holocausteraassets.eu/en/conference-proceedings/.

63. Peresztegi, *supra* note 61, at 1.

64. *Id.*

65. *Id.*

66. *Id.* at 2-5.

67. *Id.* at 1.

68. Hungary's actions regarding artwork stolen from its own country differ greatly from its actions regarding artwork stolen from the Hungarian Jews. Hungary asserts that it lost over 40,000 works of art including paintings, decorative arts, and other objects, such as medals during World War II. Prague Holocaust Era Assets Conference, *supra* note 62, at 1227. Between 1945 and 1948, approximately 90 to 92% of those objects were returned, with 20% of them currently remaining at Hungary's cultural institutions. *Id.* Furthermore, Hungary has appointed a Committee for the Restitution of Cultural Property to seek out the artwork that remains missing. *Id.*

69. Prague Holocaust Era Assets Conference, *supra* note 62, at 1227.

70. *Id.*

71. Charles A. Goldstein and Commission for Art Recovery, Restitution of Holocaust-Era Looted Art, The Washington Conference (1998): An Overview, Malaga, Spain, May 8-9, 2009, 7-8, *available at* http://www.commartrecovery.org/sites/default/files/docs/MALAGA_LECTUREfinalMAY2009.pdf.

72. Konstantin Akinsha, *Convoluted Legal Battles*, ARTNEWS 18 (Jan. 2007).

73. Press Release, Counsel for Herzog Family, Federal Court Rejects Hungary's Motion to Dismiss and Delivers Key Victory to Herzog Heirs in Holocaust Looted Art Cases 1 (Sept. 2, 2011), *available at* http://www.hungarylootedart.com/wp-content/uploads/2011/09/HerzogDismissalDecisionRelease.pdf.

74. Patricia Cohen, *Family's Claim Against MoMA Hinges on Dates*, THE NEW YORK TIMES (Aug. 23, 2011), *available at* http://www.nytimes.com/2011/08/24/arts/suit-against-moma-highlights-time-limit-rule-in-nazi-looting-claims.html?pagewanted=all.

75. *Id.* In another recent Holocaust restitution case, Von Saher v. Norton Simon Museum of Art at Pasadena, 592 F.3d 954, 957 (9th Cir. 2010), the 9th Circuit found a California statute unconstitutional which extended the time limit for Holocaust-era looted art claims to be brought until December 31, 2010. The Supreme Court denied the writ of certiorari. *Id.* In Grosz v. Museum of Modern Art, Judge Colleen McMahon did not review underlying evidence, but instead decided the claim on the technicality that the three-year statute of limitations had run. 772 F.Supp.2d 473, 476 (S.D.N.Y. 2010), *aff'd by* 403 Fed.Appx. 575 (2d Cir. 2010).

76. Cohen, *supra* note 74.

77. *Museum Ethics: Best Practices and Real Events*, COMMISSION FOR ART RECOVERY (2010), *available at* http://www.commartrecovery.org/content/museum-ethics-best-practices-and-real-events.

78. *Id.* The Toledo Museum of Art, Detroit Institute of Art, Museum of Modern Art, Solomon R. Guggenheim Foundation, and Museum of Fine Arts, Boston have all succeeded in filing suits claiming that they have title to paintings by van Gogh, Gauguin, Picasso and Kokoschka. *Id.*

79. Cohen, *supra* note 74.

80. Dempsey, *supra* note 49.

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A Red-Letter Year: Single Color Trademark Protection in the Fashion Industry

By Danielle Ella Gorman

Introduction

French footwear designer Christian Louboutin sells more than 500,000 pairs of shoes bearing his name each year.[1] At prices of $400 to $6,000 a pair,[2] these high-heels are fashion's ultimate symbol of status and prosperity.[3] While the considerable price tag and celebrity A-list adoption certainly bolster the fame of the brand, Louboutin's shoes are best known for one thing: their red outsoles. The shiny red outsole has appeared on "virtually all Louboutin shoes" since 1992.[4] The "Red Sole Mark" was awarded trademark registration in the United States in 2008, affording protection to "a lacquered red sole on footwear."[5] Over the years, the red sole has become a great visual cue, widely recognized by consumers as a trademark of the Louboutin brand.[6]

However, despite the overwhelming association in consumers' minds between the red sole and the Louboutin brand, the fate of the Red Sole Mark came before the United States District Court for the Southern District of New York in *Louboutin S.A. v. Yves Saint Laurent, Am., Inc.*, when rival fashion house Yves Saint Laurent (YSL) counterclaimed for cancellation of the mark's registration.[7]

In August 2011, the district court denied Louboutin's motion for a preliminary injunction against alleged trademark infringement by YSL. In doing so, the court acknowledged that "[c]olor alone sometimes may be protectable as a trademark,"[8] but ultimately indicated that it would cancel the Red Sole Mark registration upon a motion by YSL for summary judgment, since single colors in the realm of fashion are "per se aesthetically functional."[9] Louboutin brought an interlocutory appeal from the district court's order, which was answered by the Second Circuit on September 5, 2012.

I. Flaws in the *Louboutin* District Court Opinion

The district court's analysis of the protectability of a single color trademark was complicated by the fact that the mark here was applied to "an article of wear produced in the fashion industry"[10]—a distinction upon which the court's decision ultimately turned.[11] On appeal, Louboutin characterized the district court's ruling as an "*a priori* rule that a single color may not serve as a trademark on a fashion item,"[12] and *amicus curiae* Tiffany & Co. described it as "a sweeping and unprecedented *per se* rule against granting trademark protection to *any* single color that is used on *any* 'fashion item'…."[13]

The district court's "*per se* rule" was problematic because it was based on a generalized analysis of the fashion industry, and as such could have eroded trademark protection within fashion beyond just single color marks.[14] Using the district court's rationale, many currently enforceable multi-color trademarks in fashion, such as the green and red Gucci stripe,[15] or trademarks that use color in "patterns or combinations,"[16] such as the Burberry check,[17] could have been canceled under similarly broad construals of functionality, aesthetic functionality, and color depletion theory.[18] This would have resulted in an uncertain or dwindling amount of trademark protection in an industry that needs such protection the most. Moreover, the effects of the district court opinion could have rippled into other industries,[19] placing currently enforceable marks at risk where rights gained through federal registration could "be upended arbitrarily"[20] if courts construed the mark holder's claim to be broader than the specific language of its registration.[21]

The district court's reliance on the antiquated theories of color depletion, shade confusion, and a broad construal of aesthetic functionality was in error for the reasons set forth below.

A. Color Depletion

The color depletion theory reflects the "concern that since the number of colors is limited, to grant exclusive rights in colors would soon deplete the available stock and, thus, be anticompetitive."[22] This theory was most famously articulated in *Campbell*, which denied the plaintiff the exclusive use of a red and white label on food products, finding that "[i]f [plaintiff] may thus monopolize red in all of its shades the next manufacturer may monopolize orange in all its shades and the next yellow in the same way. Obviously, the list of colors will soon run out."[23] However, in ruling that single colors *can* serve as trademarks, the *Owens-Corning* court acknowledged that "following passage of the Lanham Act courts have declined to perpetuate [the color depletion theory's] *per se* prohibition which is in conflict with the liberating purposes of the Act,"[24] and agreed with the Trademark Trial and Appeal Board that "the color depletion argument is an unreasonable restriction on the acquisition of trademark rights."[25] Scholars approved of this rejection of the color depletion argument.[26] The Supreme Court ultimately adopted this position in *Qualitex*, holding that color depletion theory is unpersuasive "because it relies on an occasional problem to justify a blanket prohibition."[27] Following these precedential decisions, the legitimacy of the color depletion theory has become questionable at best.

Nonetheless, the district court in *Louboutin* explicitly invoked the color depletion theory in finding the Red Sole

Mark unprotectable. The court found that "Louboutin's claim would cast a red cloud over the whole industry, cramping what other designers could do, while allowing Louboutin to paint with a full palette."[28] Such a "monopoly on the color red would impermissibly hinder competition among other participants"[29] and the "law should not countenance restraints that would interfere with creativity and stifle competition…."[30]

There were a variety of problems with the district court's reliance on and construal of the color depletion theory. Foremost, the court characterized Louboutin's claim as "a claim to 'the color red'"[31] and found that "Louboutin would thus be able to market a total outfit in his red, while other designers would not."[32] This was clearly not the case. Louboutin's trademark registration specifically limits the red mark to footwear, and includes a line drawing to show placement of the mark on the outsole of a shoe.[33] Moreover, the court failed to acknowledge that Louboutin's color mark is an extremely rare practice, in terms of both the mark's placement as well as its unnatural hue.[34] This should render Louboutin's mark less anti-competitive than if the court were dealing with, for example, colored blouses or handbags, where use of a single color is commonplace and the threat of depletion obvious. Furthermore, the district court neglected the specific facts of the case in favor of applying the color depletion theory at the outset. The court did acknowledge that the Red Sole has acquired secondary meaning, but quickly moved into broad policy-based discussions in reaching its decision. *Owens-Corning* and *Master Distributors* state that each case is to be decided on its facts,[35] and where a party has met all the normal trademark requirements, the color depletion theory should not bar the party's single color mark from protection.[36]

Furthermore, color depletion is less of an actual threat where modern "technology allows replication of precise shades on a given product."[37] When a manufacturer can "produce a precise shade time and time again, …courts should be more willing to protect a color as a trademark because the manufacturer is depleting less of the available spectrum."[38]

B. Shade Confusion

The shade confusion theory is based upon the belief "that differences in individual shades of color would be too difficult to discern by triers of fact,"[39] and that "infringement actions could soon denigrate into questions of shade confusion."[40] The dissenting judge in *Owens-Corning* articulated this theory,[41] but courts in later decisions chose not to rely on his concern.[42] In *Master Distributors*, the Eighth Circuit found that "[a]lthough protecting particular shades of color may result in some shade confusion problems," determining the likelihood of confusion among color shades is no more difficult than determining the likelihood of confusion between similar word marks.[43] In *Qualitex*, the Supreme Court rejected the defendant's shade confusion argument on similar grounds, finding that courts often make difficult likelihood of confusion decisions and that doing so in the context of color is no different or any more difficult.[44] Thus, this "theory developed around the incorrect assumption that shades of color are inherently more difficult to differentiate than words, graphics, or shapes."[45]

The shade confusion theory is flawed because it fails to concede that *all* trademark infringement actions "denigrate into questions of…confusion,"[46] with courts considering a plethora of factors to assess the likelihood of confusion between marks.[47] In fact, "[c]onfusion is the essence of an infringement claim…."[48] Moreover, courts have contradictorily invoked the shade confusion theory to deny protection to single color marks, but not to color used in combination with a symbol or words.[49] "Color-in-combination" marks are frequently registered and protected without any objections based upon shade confusion.[50] Applying shade confusion theory to bar single color marks but not color-in-combination marks is disingenuous, as "[q]uestions of color comparison and confusion are necessitated in litigation involving color *per se* marks as well as color-in-combination marks."[51] It thus becomes evident that the shade confusion theory is an anomaly through which courts may justify the front-end filtering of single color marks.

Despite these flaws, and despite the Supreme Court's rejection of the theory, the district court invoked the shade confusion theory as further justification of its prohibition of single color marks in fashion.[52] The opinion distinguished *Qualitex*'s rejection of the theory on the basis that the "contexts in which the application of [difficult likelihood of confusion judgments] generally has arisen has not entailed use of a single color in the fashion industry, where distinctions in…single colors represent not just matters of degree but much finer qualitative and aesthetic calls."[53] The district court assumed that judgment calls would be more difficult to make in the fashion realm because color is more crucial, and that judges would have to become "arbiter[s] of fashion design."[54] In reality, the degree to which two colors are confusingly similar when looked at side-by-side, as they were in *Louboutin*, should not vary from one context or industry to the next. Moreover, just because fashion designers enjoy a more subtle relationship with color than do producers of other products, that does not mean that consumers' perception of color on fashion goods is that much more intricate.

Rather than rely on a previously rejected doctrine, courts should accept that they will be forced to make subtle judgment calls—as they do in most trademark cases already.

C. Functionality

Non-functionality is a requirement for the federal protection of any trademark. Although initially intended to keep utilitarian product features in the public domain, functionality has expanded to consider non-utilitarian, aesthetic product features as well. However, the doctrine of utilitarian functionality is inapplicable to the Red Sole Mark, while the doctrine of aesthetic functionality was too broadly construed in the district court opinion to comport with modern trademark law.

1. Utilitarian Functionality

The functionality doctrine prevents trademark law from allowing a producer to gain a perpetual monopoly over a useful product feature.[55] Under the traditional *Inwood* test of utilitarian functionality, "[a] product feature is functional if it is essential to the use or purpose of the article or if it affects the cost or quality of the article."[56] "Where the design is functional under the *Inwood* formulation there is no need to proceed further to consider if there is a competitive necessity for the feature."[57] The district court found the Red Sole Mark functional under the *Inwood* test by focusing broadly on color *per se* and on the fashion industry in general, rather than limiting its focus to the actual product at hand. In considering the "essential to the use or purpose" prong, the court found that color is a "critical attribute" of all products in the fashion industry, and an essential element needed by competing designers.[58] Here, the court failed to ask specifically whether the red sole is essential to the use or purpose of the shoe. In considering the "affects the cost or quality" prong, the court found that adding the red sole adds to the cost of production, but that this "higher cost of production is desirable because it makes the final creation that much more exclusive, and costly."[59] However, the doctrine of functionality seeks to prevent a producer from having a monopoly on the ability to manufacture a product at a lower cost, since that would place competitors at a significant disadvantage.[60] As *amicus curiae* Tiffany & Co. argued, "[i]f the use of a trademarked feature makes a product *more* expensive to produce, this demonstrates that the feature is *not* a functional element that competitors need in order to compete."[61] As the red sole is not essential to the use or purpose of the shoe, and because it neither improves the quality[62] of the shoe nor lowers the cost of production, the utilitarian standard of functionality under *Inwood* is inapplicable.[63]

2. Aesthetic Functionality

The aesthetic functionality doctrine is a hotly debated theory that is inconsistently and unpredictably used by modern courts.[64] Aesthetic functionality is based upon the premise that the visual appeal of a trademark may be "essential to effective competition"[65] or "an important ingredient in the commercial success of the product,"[66] and must therefore be free for all to imitate for reasons of fair competition. The doctrine was most famously applied in the 1952 *Pagliero v. Wallace China Co.* decision, where the Ninth Circuit found that the defendant was entitled to copy the plaintiff's china designs, since the "attractiveness and eye-appeal of the design" were the primary selling feature of the china.[67] However, the Ninth Circuit has substantially limited the *Pagliero* decision in recent years,[68] and the Second Circuit declined to apply the *Pagliero* test for aesthetic functionality in deciding a nearly identical case in 1993.[69] Other courts rejected the doctrine of aesthetic functionality altogether.[70] In 1995, "The Restatement took a compromise position rejecting *Pagliero*…[and] substantially redefined aesthetic functionality: 'A design is functional because of its aesthetic value only if it confers a significant benefit that cannot practically be duplicated by the use of alternative designs.'"[71] The Supreme Court adopted this standard in *Qualitex*.[72] The use and construal of the aesthetic functionality doctrine for source-designating trademarks still varies by circuit, though most courts have rejected or limited its application.[73]

However, the district court in *Louboutin* reverted to a broad construal of aesthetic functionality, finding that "in fashion markets color…is used in designs primarily to advance expressive, ornamental and aesthetic purposes."[74] The court highlighted the non-trademark functions of the red sole in its finding of aesthetic functionality: "[t]o attract, to reference, to stand out, to blend in, to beautify, to endow with sex appeal…."[75] Yet, these "functional" roles of color cited by the district court could have been invoked to render nearly any color mark—not just those used in the fashion industry—unprotectable. Namely, every trademark, let alone color mark, serves to "reference" its source, as this is the ultimate role of a trademark. For example, the color pink for home insulation, found protectable in *Owens-Corning*, intended to reference its manufacturer. When television commercials told customers to "put your house in the pink," they were actually telling customers to purchase Owens-Corning insulation.[76] Thus, not only did the district court's rationale threaten other types of marks within fashion, but it also conflicted with the protection of color marks outside the fashion industry.

Rather than examine the availability of alternative designs,[77] the district court automatically found a "threat[] to legitimate competition in the designer shoe market,"[78] since it construed Louboutin's mark as a claim to the color red *per se*, rather than a claim to a lacquered red outsole. The integral question should not have been whether fashion designers need to be able to use the color red in general, but rather whether competing shoe designers need to be able to use a red sole to compete effectively.[79] *Louboutin*'s generalized construal of aesthetic functionality could have been used to render nearly every mark in fashion unprotectable, with the presumption that a visually appealing mark is necessary for free competition since fashion is premised on aesthetic beauty. This would have been a "death knell"[80] for trademark protection, which the Ninth Circuit recognized in a 1981 case where it rejected the contention that Louis Vuitton's mark was aesthetically functional merely because it appealed to consumers.[81]

By viewing Louboutin's trademark as a claim to the color red in general, the district court was able to make sweeping arguments about the mark's inherent functionality. Regardless of whether the court's focus was skewed, the language of its decision could have been invoked in the future to find nearly any appealing trademark in fashion aesthetically functional.

II. The Second Circuit Opinion

Perhaps indicative of the significant ramifications that a flawed *Louboutin* opinion would have had in the fashion industry and beyond, the Second Circuit took nearly 13 months to issue its decision on appeal. What results is an opinion that corrects the district court's most egregious divergences from the law, but leaves important questions unanswered.

The legal issue on appeal was "whether a single color may serve as a legally protected trademark in the fashion industry and, in particular, as the mark for a particular style of high fashion women's footwear."[82] The Second Circuit issued an opinion[83] that affirmed the district court in part, reversed in part, and remanded for further proceedings with regard to YSL's counterclaims.[84]

Most importantly, the Second Circuit made clear that "no *per se* rule governs the protection of single color marks in the fashion industry, any more than it can do so in any other industry,"[85] and held that the district court's per se rule was incongruous with the Supreme Court's holding in *Qualitex v. Jacobson*,[86] where the Court "specifically forbade the implementation of a *per se* rule that would deny protection for the use of a single color as a trademark in a particular industrial context."[87]

After determining that a single color mark in fashion *could* be protectable, the Second Circuit specifically considered whether Louboutin's Red Sole Mark merited protection as a distinctive mark. Based upon the evidentiary record before it, the court concluded that Louboutin had only established secondary meaning in the red sole when used in *contrast* with the upper part of the shoe; in other words, Louboutin had not established secondary meaning in the application of a red sole to a red shoe. Pursuant to section 37 of the Lanham Act,[88] the court therefore modified Louboutin's Red Sole Mark to extend only to "a red lacquered outsole that contrasts with the color of the adjoining 'upper.'"[89] Louboutin's trademark, as so modified, was deemed protectable.[90]

"Having limited the Red Sole Mark…and having established that the red sole used by YSL is not a use of the Red Sole Mark," the court found that it need not address the likelihood of confusion or whether Louboutin's modified mark is functional. Rather, it affirmed the district court order in part, insofar as it declined to enjoin the use of a red sole on a red shoe, and reversed the order in part, insofar as it suggested that Louboutin's use of *contrasting* red soles was not protectable.

The outcome—that Louboutin's Red Sole mark was narrowed, though not cancelled, and YSL was held not to have infringed—was cast as a victory for both sides by the media and the lawyers involved.[91] Upon closer consideration, however, it is clear that neither party is in a better position today than it was a year ago. The only winner here is the fashion industry at large, which can now rest assured, knowing that its single color marks are not susceptible to a per se ban.[92] However, it seems unlikely that such misfortune would have befallen the industry in the first place had it not been for Louboutin, which chose to pursue a lawsuit on a less-than-ideal set of facts.[93]

III. Lingering Questions

Holistically, the Second Circuit crafted the correct result. Completely canceling the Red Sole Mark would have raised eyebrows, given its acquired distinctiveness and presumptively valid federal registration. Moreover, enjoining YSL from selling a monochromatic red shoe may too have been in error, as there was sufficient doubt as to whether Louboutin could have shown a likelihood of success on the merits, since likelihood of confusion as to source was improbable.

Despite the reasonable outcome, the opinion leaves important questions unanswered. Much of the Second Circuit's opinion addressed the doctrine of aesthetic functionality and even made explicit a three-prong test moving forward,[94] but chose to forgo an application of that test to the facts at hand. As such, it is possible that Louboutin's modified trademark could later be deemed unprotectable if YSL or another party were to raise a fact-based aesthetic functionality defense. Despite a helpful review of the doctrine, the Second Circuit provided no guidance on the fundamental issue of this case—how a court should consider aesthetic functionality as it relates to single color marks in fashion. Aesthetic functionality is still a viable defense, and courts applying the doctrine in the future may struggle with the analysis, as did the district court, due to this shortcoming of the Second Circuit's opinion.

IV. Looking Forward

Given the Second Circuit's unhelpful, albeit doctrinally justified,[95] evasion of a specific aesthetic functionality analysis in this case, courts still need clearer guidance on how to analyze the protectability of single color marks in fashion. Specifically, courts should consider: (1) the strength of the mark's secondary meaning; (2) its use as a trademark, as evidenced by its public recognition as a source identifier; (3) its aesthetic functionality, based on the material ramifications for competition within the same market, including consideration of whether adequate alternative designs exist; (4) its utilitarian functionality, limited to whether the element makes the product less costly to produce or of higher quality; and (5) the novelty of the mark. These considerations should be coupled with prophylactic efforts by the USPTO to ensure that registrations for such marks are as precise as possible in the first place, including a requirement that applicants specify the Pantone number(s) claimed.[96]

The reversal of a per se ban on single color marks in fashion is but one small triumph for an industry that continues to struggle with an acknowledged lack of sufficient intellectual property protection. On September 20, 2012, the Senate Judiciary Committee favorably reported to the Senate S. 3523, the Innovative Design Protection Act of 2012,[97] the latest in a series of similar, though ultimately unsuccessful, bills to extend copyright protection to certain fashion designs.[98] As the 112th session of Congress drew to a close, this Act met a similar fate.[99]

Some fashion designers, such as Lululemon Athletica, Inc., have begun to harness the power of design patents in light of the shortcomings of traditional copyright and trademark protection.[100] Such alternative strategies may be the fashion industry's only remedy for the nearly foreseeable future.

The red sole saga was but one battle in a much larger, more pervasive fight for adequate intellectual property protections in the fashion industry. What remains to be seen is how the industry will sustain its efforts as the limelight fades post-*Louboutin*.

Endnotes

1. *See* Lauren Collins, *Sole Mate: Christian Louboutin and the Psychology of Shoes*, The New Yorker (Mar. 28, 2011), http://www.newyorker.com/reporting/2011/03/28/110328fa_fact_collins.
2. *See id.*
3. The Christian Louboutin brand has consistently ranked at the top of The Luxury Institute's annual Luxury Brand Status Index (LBSI), which is an objective measure of the value of high-end brands to wealthy consumers. *See, e.g.*, *High Net-Worth Shoppers Rank Luxury Brands on Multiple Criteria*, Luxury Inst. Blog (Mar. 29, 2011), http://blog.luxuryinstitute.com/?p=993 (Christian Louboutin ranked as the second most luxurious brand in the Women's Shoes category in 2011, and as the top brand from 2007 to 2010).
4. Brief for Plaintiffs-Counter-Defendants-Appellants and Special Index at 9, Louboutin S.A. v. Yves Saint Laurent Am. Holdings, Inc., 696 F.3d 206 (2d Cir. Oct. 17, 2011) (No. 11-cv-3303), ECF No. 45, 2011 WL 5031696, at *9.
5. Design listing or lined for a single color, Registration No. 3361597.
6. *See, e.g.*, Alison Frankel, *Louboutin Red-Sole Trademark Case: Color War at the 2nd Circuit*, Thomson Reuters (Jan. 5, 2012), http://newsandinsight.thomsonreuters.com/Legal/News/2012/01_-_January/Louboutin_red-sole_trademark_case__color_war_at_the_2nd_Circuit!/ (Louboutin is "known around the world for the flashy Chinese red on the bottom of his posh high heels….").
7. *See* Louboutin S.A. v. Yves Saint Laurent Am., Inc., 778 F. Supp. 2d 445 (S.D.N.Y. 2011).
8. *Id.* at 450 (internal quotation marks omitted).
9. "If a motion for summary judgment were brought, the Court's conclusion that the Red Sole Mark is ornamental and functional in its fashion industry market would compel it to grant partial summary judgment in favor of YSL on YSL's counterclaims seeking cancellation of Louboutin's mark." *Id.* at 457.
10. *Louboutin*, 778 F. Supp. 2d at 451.
11. *See id.* ("[W]hatever commercial purposes may support extending trademark protection to a single color for industrial goods do not easily fit the unique characteristics and needs—the creativity, aesthetics, taste, and seasonal change—that define production of articles of fashion…. [I]n fashion markets color serves not solely to identify sponsorship or source, but is used in designs primarily to advance expressive, ornamental and aesthetic purposes.").
12. Brief of Appellant, *supra* note 4, at 19.
13. Brief for Tiffany & Co. as Amici Curiae Supporting Appellants at 3, Louboutin S.A. v. Yves Saint Laurent Am. Holding, Inc., 696 F.3d 206 (2d Cir. Oct. 24, 2011) (No. 11-cv-3303), ECF. No. 63, 2011 WL 5126167, at *3.
14. "Fashion law experts have suggested that other brands' exclusive use of certain colours could be at risk should Louboutin's trademark on red soles crumble." Emily Cronin, *Tiffany Supports Louboutin's Red-Sole Appeal,* ElleUK.com (Oct. 25, 2011), http://www.elleuk.com/news/fashion-news/tiffany-supports-louboutin-s-red-sole-appeal/(gid)/819982.
15. The Gucci trademark "is made up of a stripe containing three bands of color, the colors being green, red then green." Registration Nos. 1122780, 1123224 and 1483526. *See also* Gucci Am., Inc. v. Guess?, Inc., 09 Civ. 4373, 2012 U.S. Dist. LEXIS 84232 (S.D.N.Y. June 18, 2012) (permanently enjoining defendant from using a confusingly similar green-red-green stripe design on certain products).
16. Louboutin S.A. v. Yves Saint Laurent Am., Inc., 778 F. Supp. 2d 445, 451 (S.D.N.Y. 2011).
17. The Burberry check pattern consists of "the colors and shades of colors" "light tan, dark tan, light brown, dark brown, black, white, very dark red, dark red, medium red, light red, dark grey, medium grey and light grey." Registration No. 1241222; *see also* Burberry Ltd. v. Euro Moda, Inc., No. 08-5781, 2009 U.S. Dist. LEXIS 53250 (S.D.N.Y. 2009) (using Burberry's registration of the check mark as prima facie evidence that the mark is valid).
18. Although the district court sought to distinguish unprotectable single color marks from protectable multicolor marks, the line drawn between the two is arbitrary; in both cases, a competitor has hypothetically depleted the other designers' "palette." *See generally Louboutin*, 778 F. Supp. 2d 445.
19. "The reason [Tiffany filed an *amicus* brief] is simple: if the district court ruling is left to stand, Tiffany's trademark blue could be in danger as well." Joe Palazzolo, *Ruling against French Shoemaker Gives Tiffany the Blues*, Wall St J. L. Blog (Oct. 26, 2011), http://blogs.wsj.com/law/2011/10/26/ruling-against-french-shoemaker-gives-tiffany-the-blues.
20. Brief for International Trademark Association (INTA) as Amici Curiae at 26, Louboutin S.A. v. Yves Saint Laurent Am., Inc. (2d Cir. Nov. 14, 2011) (No. 11-cv-3303), ECF. No. 82, 2011 WL 5833570, at *26.
21. Crucial to the district court's position was its construal of Louboutin's claim as a claim to the color red, rather than a claim to a lacquered red sole on footwear, as specified in Louboutin's trademark registration. *See Louboutin*, 778 F. Supp. 2d at 453-44.
22. Jeffrey M. Samuels and Linda B. Samuels, *Color Trademarks: Shades of Confusion*, 83 Trademark Rep. 554, 555 (1993).
23. Campbell Soup Co. v. Armour & Co., 175 F.2d 795, 798 (3d Cir. 1949); *see also* Diamond Match Co. v. Saginaw Match Co., 142 F. 727, 729 (6th Cir. 1906) ("The primary colors, even adding black and white, are but few. If two of these colors can be appropriated for one brand of tipped matches, it will not take long to appropriate the rest.").

24. *In re* Owens-Corning Fiberglas Corp., 774 F.2d 1116, 1120 (Fed. Cir. 1985).

25. *Id.* at 1122 ("[I]n a case where there is no competitive need…for colors to remain available to all competitors, the color depletion argument is an unreasonable restriction on the acquisition of trademark rights. We are confronted with such a case.") (internal citations and quotation marks omitted).

26. *See* Samuels, *supra* note 22, at 559 ("Commentators applauded the Federal Circuit's rejection of any rule that automatically barred trademark protection for a single product color alone….").

27. Qualitex v. Jacobson Prods. Co., 514 U.S. 159, 168 (1995); *see also* Master Distribs. v. Pako Corp., 986 F.2d 219, 223 (8th Cir. 1993) (rejecting the color depletion theory).

28. Louboutin S.A. v. Yves Saint Laurent Am., Inc., 778 F. Supp. 2d 445, 454 (S.D.N.Y. 2011).

29. *Id.*

30. *Id.* at 453.

31. *Id.* at 454.

32. *Id.* at 455.

33. *See* Registration No. 3361597 (claiming red as a feature of the mark, which "consists of a lacquered red sole on footwear.").

34. *See* Samuels, *supra* note 22, at 569 ("Proof that the color is not the natural color of the product and, in fact, is a somewhat unusual color for that product, will also increase the likelihood of securing trademark protection.").

35. Master Distribs. v. Pako Corp., 986 F.2d 219, 222 (8th Cir. 1993) ("The court recognized the color depletion theory as an argument against the protection of color, but concluded that 'contrary to an absolute prohibition on registrability of color marks,…each case [should be] decided upon its facts.'") (quoting *In re* Owens-Corning Fiberglas Corp., 774 F.2d 1116, 1120 (Fed. Cir. 1985)).

36. *Master Distribs.*, 986 F.2d at 223 ("We believe that not allowing manufacturers to protect color marks when all the traditional requirements have been met will actually promote inconsistency and confusion.").

37. Stephen J. Newman, *Kill the "Mere Color" Rule: Equal Protection for Color Under the Lanham Act*, 61 U. Chi. L. Rev. 1595, 1613 (1994).

38. *Id.*

39. Michael B. Landau, *Trademark Protection for Color Per Se After Qualitex Co. v. Jacobson Products Co.: Another Grey Area in the Law,* 2 UCLA Ent. L. Rev. 1, 11 (1995).

40. *In re* Owens-Corning Fiberglas Corp., 774 F.2d 1116, 1131 (Fed. Cir. 1985) (Bissell, C.J., dissenting).

41. *See id.*

42. One exception is *NutraSweet*, where the majority did rely on shade confusion theory. *See* NutraSweet Co. v. Stadt Corp., 917 F.2d 1024, 1027 (7th Cir. 1990). However, *NutraSweet* was decided before *Master Distributors* and *Qualitex*.

43. Master Distribs. v. Pako Corp., 986 F.2d 219, 223 (8th Cir. 1993) ("Triers of fact must often answer close and difficult questions, and the traditional likelihood of confusion standard should be applied to distinguish similar colors, as it is when similar slogans, symbols, numbers, or words are compared.").

44. *See* Qualitex v. Jacobson Prods. Co., 514 U.S. 159, 167 (1995).

45. Landau, *supra* note 39, at 11. *See also* Samuels, *supra* note 22, at 569.

46. *See supra* text accompanying note 40.

47. *See generally* Landau, *supra* note 39, at 11–15 (arguing that the determination by courts of the likelihood of confusion between word marks and between color marks is equally difficult).

48. *Id.* at 14.

49. *See id.* at 15–16.

50. *Id.* The district court cited Burberry's check pattern and Louis Vuitton's Murakami design as examples of color-in-combination marks. "In these cases…the approved trademark applies to color not as an abstract concept…but to the arrangement of different colors and thus their synergy to…identify a source…." Louboutin S.A. v. Yves Saint Laurent Am., Inc., 778 F. Supp. 2d 445, 451 (S.D.N.Y. 2011).

51. Landau, *supra* note 39, at 16.

52. *See Louboutin*, 778 F. Supp. 2d at 453 ("Placing off limit signs on any given chromatic band by allowing one artist or designer to appropriate an entire shade and hang an ambiguous threatening cloud over a swath of other neighboring hues, thus delimiting zones where other imaginations may not veer or wander, would unduly hinder not just commerce and competition, but art as well.").

53. *Id.* at 456.

54. *Id.*

55. *See* Qualitex v. Jacobson Prods. Co., 514 U.S. 159, 164 (1995).

56. Inwood Labs. v. Ives Labs., 456 U.S. 844, 851, n.10 (1982). *See also Qualitex*, 514 U.S. at 165; TrafFix Devices v. Mktg. Displays, 532 U.S. 23, 232 (2001).

57. *TrafFix*, 523 U.S. at 33. However, where the central question is aesthetic functionality, courts will invoke the competitive necessity test, which prohibits protection for features the "exclusive use of [which] would put competitors at a significant non-reputation-related disadvantage." *Qualitex*, 514 U.S. at 165.

58. Louboutin S.A. v. Yves Saint Laurent Am., Inc., 778 F. Supp. 2d 445, 452–53 (S.D.N.Y. 2011). "Fashion has 'a dependence on color as an indispensable medium. Color constitutes a critical attribute of the goods each form designs.'" *Id.* at 452.

59. *Id.* at 454.

60. *See, e.g.*, Kellogg Co. v. Nat'l Biscuit Co., 305 U.S. 111, 122 (finding the pillow-shape of shredded wheat functional because this form allows the product to be produced at a lower cost).

61. Brief for Tiffany & Co., *supra* note 13, at 17*; see also* LeSportsac, Inc. v. K Mart Corp., 754 F.2d 71, 76 (2d Cir. 1985) ("[A] design feature 'affecting the cost or quality of an article' is one which permits the article to be manufactured at a lower cost….") (internal citation omitted).

62. Although the district court did not consider how the addition of a red sole would affect the quality of the shoe, Louboutin argued on appeal that the addition of the red sole actually causes wear to show more easily, and thereby offers no functional advantage. *See* Brief of Appellant, *supra* note 4, at 32.

63. *See* Anne Gilson LaLonde, *Tripping on the Red Carpet? Color Trademarks and the Fashion Industry in Louboutin v. Yves Saint Laurent*, 2011 Emerging Issues 5994, at *4 (August 2011) ("The court incorrectly cited the *utilitarian* functionality standard…. The visual appeal of the bright red sole is not utilitarian: It is not essential to the use or purpose of the shoe, and the court even notes that addition of the red lacquer to a leather sole is 'more expensive, not less' than producing shoes 'without that extra ornamental finish.'") (citations omitted).

64. *See generally* Mark Alan Thurmon, *The Rise and Fall of Trademark Law's Functionality Doctrine*, 56 Fla. L. Rev. 243, 326–33 (2004) (describing the division in the courts over the proper aesthetic functionality standard).

65. Wallace Int'l Silversmiths, Inc. v. Godinger Silver Art Co., 916 F.2d 76, 80 (2d Cir. 1990).

66. Pagliero v. Wallace China Co., 198 F.2d 339, 343 (9th Cir. 1952).

67. *Id.* at 343–44.

68. *See generally* Au-Tomotive Gold, Inc. v. Volkswagen of Am., Inc., 457 F.3d 1062, 1074 (9th Cir. 2006); Fleischer Studios, Inc.

v. A.V.E.L.A., 654 F.3d 958 (9th Cir. 2011) (withdrawing its own earlier decision based on the aesthetic functionality doctrine).

69. *See* Villeroy & Boch Keramische Werke K.G. v. THC Sys., Inc., 999 F.2d 619 (2d Cir. 1993).

70. *See* Ferrari S.P.A. Esercizio v. Roberts, 944 F.2d 1235, 1247 (6th Cir. 1991) ("The precedent in this circuit suggests that aesthetic functionality will not preclude a finding of nonfunctionality where the design also indicates source."); Devan Designs, Inc. v. Palliser Furniture Corp., 25 U.S.P.Q.2d (BNA) 1991, 2002 (M.D.N.C. 1992) ("The Fourth Circuit has not considered extending the functionality defense to aesthetic characteristics.").

71. 2 J. Thomas McCarthy, McCarthy on Trademarks and Unfair Competition § 7:80 n.13 (4th ed. 2004).

72. *See* Qualitex v. Jacobson Prods. Co., 514 U.S. 159, 170 (1995) ("The Restatement (Third) of Unfair Competition adds that, if a design's 'aesthetic value' lies in its ability to 'confer a significant benefit that cannot practically be duplicated by the use of alternative designs,' then the design is 'functional.'").

73. *See, e.g.*, Bd. of Supervisors for La. State Univ. Agric. & Mech. Coll. v. Smack Apparel Co., 550 F.3d 465, 487–88 (5th Cir. 2008) ("Our circuit has consistently rejected the concept of aesthetic functionality….We do not believe that the Court's dictum in *TrafFix* requires us to abandon our long-settled view rejecting recognition of aesthetic functionality."). One recent exception is Jay Franco & Sons, Inc. v. Franek, 615 F.3d 855 (7th Cir. 2010) (holding the circular design of a beach towel aesthetically functional). However, the *Franek* court noted "consumers want the shape regardless of who manufactures it." *Id.* at 861. In *Louboutin*, consumers want the red sole precisely because of who manufactures it.

74. Louboutin S.A. v. Yves Saint Laurent Am., Inc., 778 F. Supp. 2d 445, 451 (S.D.N.Y. 2011).

75. *Id.* at 454.

76. *In re* Owens-Corning Fiberglas Corp., 774 F.2d 1116, 1126 (Fed. Cir. 1985) (discussing Owens-Corning's advertisements that focused on the color pink).

77. *See, e.g.*, Knitwaves, Inc. v. Lollytogs, Ltd., 71 F.3d 996, 1006 (2d Cir. 1995) (finding that although the primary purpose of plaintiff's sweater designs was aesthetic, protecting the designs would not affect defendant's ability to compete, where defendant failed to prove that the number of alternative "fall motif" designs was limited).

78. *Louboutin*, 778 F. Supp. 2d at 454.

79. On appeal, Louboutin argued that protection of the red sole does not hinder competition, since designers such as Jimmy Choo and Manolo Blahnik compete effectively against Louboutin without using red outsoles. Brief of Appellant, *supra* note 4, at 30, 35.

80. Au-Tomotive Gold, Inc. v. Volkswagen of Am., Inc., 457 F.3d 1062, 1064 (9th Cir. 2006).

81. *See* Vuitton et Fils S.A. v. J. Young Enter., Inc., 644 F.2d 769, 774 (9th Cir. 1981).

82. Louboutin S.A. v. Yves Saint Laurent Am., Inc., 11-3303-cv, 2012 U.S. App. LEXIS 18663, at *4–5 (2d Cir. Sept. 5, 2012).

83. *See* Louboutin S.A. v. Yves Saint Laurent Am., Inc., 11-3303-cv, 2012 U.S. App. LEXIS 18663 (2d Cir. Sept. 5, 2012).

84. YSL asserted two counterclaims, seeking: (1) cancellation of the Red Sole Mark on the grounds that it is functional, not distinctive, and was secured by fraud on the PTO; and (2) damages for tortious interference with business relations and unfair competition. *See id.* at *10. YSL voluntarily dismissed these counterclaims in a motion filed October 16, 2012.

85. *Id.* at *43.

86. *See* Qualitex v. Jacobson Prods. Co., 514 U.S. 159, 161 (1995) ("[S]ometimes, a color will meet ordinary legal trademark requirements. And, when it does so, no special legal rule prevents color alone from serving as a trademark.").

87. *Louboutin*, 2012 U.S. App. LEXIS 18663, at *38.

88. "In any action involving a registered mark the court may determine the right to registration, order the cancelation of registrations, in whole or in part, restore canceled registrations, and otherwise rectify the register with respect to the registrations of any party to the action." 15 U.S.C. § 1119 (2006).

89. *Louboutin*, 2012 U.S. App. LEXIS 18663, at *56.

90. The judgment concerns U.S. Trademark Registration No. 3361597. It is interesting to note that the court did not require the registration to specify a Pantone number for the shade of red claimed.

91. *See, e.g.*, Larry Neumeister, *NY Court Protects French Shoemaker's Red Soles*, Associated Press (Sept. 5, 2012, 12:41 PM), http://www.google.com/hostednews/ap//j4AKfPZ97Yio7CTmJXAQ_5OSYLfw?docId=77c1986596ed4e1b8391d73552e59921; Shan Li, *Christian Louboutin, YSL Both Claim Victory in Red-Sole Shoe Case*, L.A. Times (Sept. 6, 2012, 7:44 AM), http://www.latimes.com/business/money/la-fi-mo-christian-louboutin-ysl-20120905,0,6601959.story.

92. Amicus curiae International Trademark Association (INTA) also claims a victory, as its amicus brief argued for a reversal of the per se ban. *See U.S. Appellate Court Falls in Step with INTA in Red Sole Case*, *INTA Bulletin*, Int'l Trademark Ass'n (Sept. 15, 2012), http://www.inta.org/INTABulletin/Pages/USAppellateCourtFallsInStepWithINTAinRedSoleCase.aspx.

93. *See* Jason Nardiello, Michael R. Schulman & Paul C. Van Slyke, *Trademark Protection of Apparel at the Fringe—Second Circuit Upholds Louboutin's "Red Sole Mark" in Trademark Dispute with Yves Saint Laurent*, Lexology (Sept. 6, 2012), http://www.lexology.com/library/.aspx?g=edf14d07-fae0-4517-82fc-417bb9345289 ("[T]he issue would have been a bit less tangled if there was an opportunity for Louboutin to sue on a YSL shoe with a red sole and a contrasting color.").

94. *See Louboutin*, 2012 U.S. App. LEXIS 18663, at *28–37 ("At the start, we address the two prongs of the *Inwood* test, asking whether the design feature is either 'essential to the use or purpose' or 'affects the cost or quality' of the product at issue.…[I]f a design feature would [be deemed] functional under *Inwood* our inquiry ends. But if the design feature is not 'functional' from a traditional perspective, it must still pass the fact-intensive *Qualitex* test and be shown not to have a significant effect on competition in order to receive trademark protection.…In short, a mark is aesthetically functional, and therefore ineligible for protection under the Lanham Act, where protection of the mark *significantly* undermines competitors' ability to compete in the relevant market.").

95. The Second Circuit explained that it analyzes trademark infringement claims in two stages: first, it determines whether the plaintiff's mark merits protection, and then, if and only if the plaintiff's mark is valid and protectable, it determines whether the use of a similar mark is likely to cause confusion. If the plaintiff demonstrates that its mark is valid and that the defendant's mark is likely to cause confusion, the defendant may nevertheless prevail by showing that the plaintiff's mark is functional. *See Louboutin*, 2012 U.S. App. LEXIS 18663, at *17–20. Since in this case the court "determine[d] that the Red Sole Mark merits protection only as modified, and because YSL's use of a red outsole on monochromatic red shoes does not infringe on the Mark as modified," it found that it did not need to reach YSL's aesthetic functionality defense. *Id.* at *45.

96. For an expanded explanation of these proposals, see Danielle E. Gorman, Note, *Protecting Single Color Trademarks in Fashion After* Louboutin, 30 Cardozo Arts & Ent. L.J. 369, 399-402 (2012).

97. *See* S. 3523, 112th Cong. (2012).

98. In March 2006, Virginia Rep. Bob Goodlatte introduced H.R. 5055 to amend Chapter 13 of Title 17 of the United States Code to allow for copyright protection of fashion design. The bill never made it out of the Committee. In April 2007, Massachusetts Representative Bill Delahunt introduced an identical bill, H.R. 2033, the Design Piracy Prohibition Act, which had the same fate. New York Senator Charles Schumer introduced the bill in the Senate that August, but hearings were never held. Delahunt reintroduced the bill in April 2009 under the same title; the bill (H.R. 2196) gained more support than previous versions, but ultimately failed again. Schumer introduced the Innovative Design Protection and Piracy Prevention Act (IDPPPA) to the Senate on August 5, 2010, but Congress adjourned before the Act came to a vote, necessitating its July 2011 reintroduction in the 112th Congress. *See* H.R. 5055, 109th Cong. (2006); H.R. 2033, 110th Cong. (2007); S. 1957, 110th Cong. (2007); H.R. 2196, 111th Cong. (2009); S. 3728, 111th Cong. (2010); H.R. 2511, 112th Cong. (2011).

99. *See* Morgan Lewis & Bockius LLP, *Design Protection Bill Sent on for Senate Vote*, LEXOLOGY (Sept. 28, 2012), http://www.lexology.com/library/detail.aspx?g=693b2adc-bb9a-41e1-abf2-346ce6f40297 ("While both manufacturers and retailers have opposed this legislation in the past, lame-duck sessions can be unpredictable and consequently both bills bear tracking….").

100. *See, e.g.*, Complaint for Patent Infringement, Lululemon Athletica Can. Inc. v. Calvin Klein, Inc., No. 1:12-cv-01034 (D. Del. filed Aug. 13, 2012), 2012 WL 3292844.

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The Moneyline on *NCAA et al. v. Christie*: New Jersey Bets Big on Its Constitutional Challenge to Federal Sports Gambling Law

By Pamela (Shisler) Starsia

Introduction

New Jersey Governor Chris Christie appears to have been born a gambling man, and he has made a substantial all-or-nothing bet on the future of sports gambling in the state of New Jersey. Despite the existence of a federal statute, the Professional and Amateur Sports Protection Act (PAPSA),[1] which ostensibly makes it categorically illegal for New Jersey to legalize sports gambling, Governor Christie signed into a law a bill that would permit New Jersey to authorize, regulate, and tax sports wagering at its Atlantic City casinos and horse racing tracks (the Sports Wagering Law).[2] Based on their past response to any state attempts to expand legalized sports gambling in the United States, it surprised no one, least of all Governor Christie, when the National Football League (NFL), Major League Baseball (MLB), National Basketball Association (NBA), National Hockey League (NHL), and National Collegiate Athletic Association (NCAA) (collectively, the Leagues) promptly filed a lawsuit in the federal District Court for the District of New Jersey, seeking to enjoin New Jersey from implementing the Sports Wagering Law, on the grounds that the law constituted a straightforward violation of PAPSA.[3]

In the nascent stages of the litigation, the parties spent some time wrangling over the question of whether the Leagues had established Article III standing to pursue the case in court. On December 21, 2012, District Court Judge Michael Shipp ruled in the Leagues' favor on the issue of standing, and held that the suit could proceed to address the second element of the state's motion for summary judgment—its arguments that PAPSA itself is constitutionally invalid.[4] The District Court will likely render a decision on the state's constitutional arguments sometime this spring. Regardless of on which side the trial court ultimately comes down, it appears virtually certain that the losing party will appeal the decision to the Third Circuit, and the Supreme Court may very well ultimately end up ruling on the case.

As discussed below, the case is not just a mere a Hail Mary by the state. New Jersey's constitutional arguments are intriguing, well-articulated, and well-founded. New Jersey has asserted that the statute violates the Tenth Amendment, the Commerce Clause, the Equal Protection Clause, and the Due Process Clause of the U.S. Constitution. This article examines each of these constitutional arguments, and concludes with a prediction that New Jersey is likely to win big on its gamble to overturn PAPSA.

The Professional and Amateur Sports Protection Act

Legal sports gambling in the U.S. is severely restricted by PAPSA, sometimes also referred to as the Bradley Act for the bill's original sponsor, former New Jersey Senator Bill Bradley. PAPSA categorically prohibits state or local governments from legalizing sports gambling in all but the four U.S. states that had already adopted some form of legalized sports wagering at the time of the bill's enactment: Nevada, Delaware, Oregon, and Montana. Nevada had legalized a comprehensive sports gambling scheme in 1949, while the other three states had enacted much more limited forms of sports gambling.[5] Enacted in 1992, with the Leagues' support, amid a wave of trepidation about the potential expansion of legalized U.S. sports gambling activity beyond the already thriving market in Nevada, PAPSA prohibits all but these four states from legalizing betting, gambling, or wagering on competitive games wherein professional or amateur athletes participate or are intended to participate.[6]

Specifically, the statute provides that:

> § 3702—Unlawful sports gambling. It shall be unlawful for—
>
> (1) a governmental entity to sponsor, operate, advertise, promote, license, or authorize by law or contract, or
>
> (2) a person to sponsor, operate, advertise, or promote, pursuant to the law or contract of a governmental entity,
>
> a lottery, sweepstakes, or other betting, gambling, or wagering scheme based, directly or indirectly (through the use of geographical references or otherwise), on one or more competitive games in which amateur or professional athletes participate, or are intended to participate, or on one or more performances of such athletes in such games.[7]

What makes PAPSA a particularly curious statute, however, is not what it prohibits, but what it permits. A review of PAPSA's legislative history makes it clear that Congress had no intention or desire to disrupt legal sports gambling schemes then in existence. Instead, it simply wished "to stop the spread of State-sponsored sports gambling."[8] Thus, PAPSA carves out a set of convoluted exemptions to permit the continuation of certain state-sponsored sports gambling schemes already in existence at the time of the bill's passage—those in Nevada, Delaware, Oregon, and

Montana.[9] Even more curious, the statute also carved out an exemption for any such scheme authorized within one year of the bill's passage, provided that the municipality authorizing such scheme within the year had continuously operated a commercial casino gambling scheme throughout the previous 10 years.[10] In other words, due to its then- and currently existing Atlantic City casino gambling scheme, New Jersey actually would have been eligible to authorize a sports gambling scheme within one year of PAPSA's passage. However, having failed to do so within the time period, it is now prohibited under PAPSA from legalizing sports gambling.

As a result, PAPSA currently permits Nevada to offer the most comprehensive sports gambling scheme in the country. Montana and Delaware continue to operate the limited sports gambling schemes or lotteries that were in place at the time of PAPSA's passage, while Oregon has abandoned its then-existing sports lottery scheme in order to become eligible to host National NCAA post-season basketball tournament games.[11] All other states are effectively prohibited from legalizing sports gambling in any form. However, neither PAPSA nor any other federal statute directly outlaws sports gambling, and the act of sports gambling itself is not a federal crime.

Congress' chosen enforcement mechanism is another somewhat unique aspect of PAPSA. The statute provides that a civil action to enjoin a violation of the statute's prohibitions: "…may be commenced in an appropriate district court of the United States by the Attorney General of the United States, or by a professional sports organization or amateur sports organization whose competitive game is alleged to be the basis of such violation."[12]

Thus, both the Attorney General and certain sports organizations have equal access to the courts to enjoin a violation of the statute. However, the Attorney General's office has historically seemed wholly content to leave this responsibility up to the sports organizations alone, perhaps with good reason. The Leagues, as the nation's premier professional and amateur sports organizations, have been notably active in their efforts to ensure rigorous enforcement of PAPSA. However, the results of the Leagues' prior litigation are of little use in setting the betting lines for our prediction of how the current case in New Jersey might be resolved.

Previous Legal Challenges to PAPSA

Prior to the current litigation, which will be discussed in detail below, there have been three notable legal challenges to the scope and validity of PAPSA, all within the Third Circuit. However, a closer look at these cases demonstrates that they have little to no use in predicting the outcome of the current litigation.

The case that the Leagues appear poised to rely heavily upon in the current litigation is *Office of the Commissioner of Baseball v. Markell*,[13] a case resolved by the Third Circuit in 2009. *Markell* involved a 2009 Delaware statute that would have legalized head-to-head (single game) sports betting in addition to its then-existing, PAPSA-grandfathered NFL parlay lottery scheme.[14] The Leagues sought to enjoin Delaware from acting under the statute, arguing that any expansion of sports gambling in the state beyond the existing, grandfathered scheme, constituted a violation of PAPSA. The District Court for the District of Delaware ruled in favor of the state, but the Third Circuit overturned that decision, granting a permanent injunction prohibiting Delaware's implementation of the expanded sports gambling scheme.[15]

Although some commentators have referenced the Third Circuit's *Markell* decision in making pessimistic predictions about New Jersey's chances of success in the current litigation, this reliance is unjustified. *Markell* was a case that was pled, briefed, and decided based on questions about the correct statutory interpretation of the statutory carveout applicable to Delaware, which states that PAPSA's prohibitions do not apply to: "…a lottery, sweepstakes, or other betting, gambling, or wagering scheme in operation in a State or other governmental entity, to the extent that the scheme was conducted by that State or other governmental entity at any time during the period beginning January 1, 1976, and ending August 31, 1990…"[16]

Delaware argued that, as a grandfathered state, it was entitled to maintain *and expand* its existing sports gambling scheme.[17] The Leagues argued that, under the plain language of the statute, Delaware's sports gambling activity must be limited to the type of sports gambling actually "conducted" by the state at the time of passage.[18]

The Third Circuit agreed with the Leagues' argument as to the correct statutory interpretation of PAPSA's terms, holding that Delaware's sports gambling activity must be limited to the type the state actually "conducted" at the time of PAPSA's enactment.[19] As a matter of pure statutory interpretation, this would clearly appear to be the correct decision. However, neither the Leagues nor the state of Delaware raised any questions as to the constitutional validity of PAPSA itself. Instead, the case was framed solely in terms of statutory interpretation of a statute that both parties deemed to be valid. Given the extent to which Delaware benefits from being one of only four states permitted to share in a Congressionally-granted sports wagering monopoly, it is easy to understand why the state would choose not to assert a constitutional challenge to the statute as an affirmative defense in *Markell*. Thus, the Third Circuit's holding in that case has virtually no value in helping to inform how the federal courts might rule on a constitutional challenge to PAPSA.

Unlike *Markell*, two prior recent cases have attempted to assert constitutional challenges to PAPSA. In one case, an individual, private citizen of New Jersey sought to have the statue declared invalid on the grounds that it violated the Tenth Amendment.[20] In the second, New Jersey State Senator Raymond Lesniak, in conjunction with certain private gaming interests, sought to challenge PAPSA on the basis that it violated a laundry list of constitutional provisions, including: the Commerce Clause, the Equal Protection Clause, and the First, Fifth, Tenth, and Eleventh Amendments.[21] Lesniak's 2011 suit was an attempt to clear a path for the eventual legalization of sports gambling in New Jersey prior to the enactment of the New Jersey Sports Wagering Law.[22] However, both of these cases were dismissed without reaching the merits of the plaintiffs' constitutional arguments, because the respective plaintiffs lacked standing.[23] Thus, to this author's knowledge, no federal court has ever addressed the merits of a constitutional challenge to PAPSA.

Current Litigation in New Jersey: *NCAA v. Christie*

The current case is the litigation equivalent of a deliciously juicy soap opera. Its starring roles are played by bold, outspoken players, including the delightfully brash Governor Christie, playing the hero for his state, against the villainous Commissioners of the Leagues (or President, in the case of the NCAA).[24] Equally fascinating, however, are the unique, rarely litigated questions of constitutional law presented in the case, and the lack of clear precedent to aid the legal odds-makers in their prediction of how the courts might rule on these issues.

At the outset, it is worth noting that both sides in the current litigation appear ready and eager to ultimately argue their cases in front of the U.S. Supreme Court. At an early stage in the litigation, the respective parties entered appearances by high-profile constitutional law attorneys with significant Supreme Court experience: Theodore Olson, of Gibson, Dunn, & Crutcher LLP, for New Jersey, and Paul Clement, of Bancroft PLLC, for the Leagues.[25] Both attorneys appear to have been actively involved in the case thus far, and the parties appear to be betting the moneyline on how PAPSA will fare with the Supreme Court; it seems almost certain that, regardless of the trial court ruling, the losing party in the case will undoubtedly appeal to the Third Circuit and, ultimately, to the Supreme Court.

Based on the constitutional arguments advanced by the state, the Court may, indeed, eventually decide to hear the case. Although some observers seem to assume that the Court would not be interested in the case based on its denial of certiorari in *Markell*, this assumption is unfounded. As discussed above, *Markell* presented no constitutional questions for review, and the Third Circuit's opinion as to statutory interpretation appears to have been almost indisputably correct. There was no reason for the High Court to grant review in that case. In contrast, the constitutional arguments presented by New Jersey in the current case appear perfectly poised to potentially pique the Supreme Court's interests—particularly those of Chief Justice Roberts, who clearly demonstrated in his recent ruling on the Patient Protection and Affordable Care Act his willingness to rein in the scope of Congress' Commerce Clause power.[26]

By contrast, in the current litigation the state has filed a notice of three separate constitutional challenges to the statute with the District Court.[27] Pursuant to Rule 5.1(a) of the Federal Rules of Civil Procedure, the United States Attorney General's office has joined the case as an intervenor for the purposes of defending PAPSA's constitutionality. The constitutional arguments advanced by New Jersey are:

1. PAPSA Violates the Anti-Commandeering Principle of the Tenth Amendment

New Jersey's first constitutional argument is that PASPA violates the principle of "anti-commandeering" established by the Supreme Court in *New York v. United States*[28] and *Printz v. United States*.[29] Derived from the Tenth Amendment's reservation of powers to the states, the anti-commandeering principle, as articulated by the state in its brief, provides that:

> Congress may not simply 'commandee[r] the legislative processes of the States by directly compelling them to enact and enforce a federal regulatory program.'[30] That is because "[w]hile Congress has substantial powers to govern the Nation directly, including in areas of intimate concern to the States, the Constitution has never been understood to confer upon Congress the ability to require the States to govern according to Congress' instructions."[31,32]

The state argues that PAPSA blatantly flouts the anti-commandeering principle. Rather than regulate or prohibit sports gambling directly, Congress has chosen to require that *states* prohibit it—essentially imposing a Congressional mandate for all non-exempt states to retain their pre-existing statutory bans on sports gambling. New Jersey argues that PAPSA's mandate is no different than if Congress had simply passed a law requiring each state legislature to enact a new law prohibiting sports gambling. As the defendants have noted, "[a] State, unless Congress favored it in PASPA, must continue to prohibit sports wagering on threat of injunction and accompanying contempt sanctions."[33] As the law directly compels the states to "require or prohibit certain acts,"[34] effectively requiring them to govern according to Congress' instructions, New Jersey argues that "[t]his is as straightforward a case of legislative commandeering as one could imagine."[35]

As applied to New Jersey, the anti-commandeering argument appears to have merit. As the defendants have argued, the core rationale of the anti-commandeering principle is of fundamental importance to a properly functioning U.S. federal system:

> As the Supreme Court has recognized, the principal problem with commandeering state legislative power is that it takes the machinery of state government away from the control of state residents. Under our federal system, if citizens of a State

> "do not consider that making provision for [in this case, the prohibition of sports gambling], they may elect state officials who share their view."[36] While "[t]hat view can always be preempted under the Supremacy Clause if it is contrary to the national view," that would require "the Federal Government [to] make[] the decision in full view of the public."[37] The State then may "choose to have the Federal Government rather than the State bear the expense of a federally mandated regulatory program," and "it will be federal officials that suffer the consequences if the decision turns out to be detrimental or unpopular." Id. In that way, "state governments remain responsive to the local electorate's preferences; state officials remain accountable to the people."[38] PASPA subverts this accountability.[39, 40, 41]

In response to the anti-commandeering argument, the Leagues will likely argue that PAPSA does not *compel* the state legislatures to act—it simply *prohibits* them from enacting legislation regarding sports wagering. It appears that no federal court has ever addressed the anti-commandeering principle in a context similar to that presented by PAPSA.

2. PAPSA Violates the Uniformity Requirement of the Commerce Clause and the Constitutional Principle of Equal Sovereignty

New Jersey's second constitutional challenge is based on another infrequently discussed principle of constitutional law, the "uniformity requirement" of the Commerce Clause,[42] which derives from the principle that each of the several states possesses the inherent right of "equal sovereignty" under the Constitution.[43] At its most fundamental level, the uniformity requirement simply requires that Congress, in exercise of its Commerce Clause authority, treat all of the states equally. As the defendants have argued in their brief:

> The Commerce Clause itself does not address whether regulation adopted pursuant to that clause must treat the States uniformly.[44] But the Supreme Court has long recognized that a purpose of the clause is "to insure uniformity in regulation" across the States.[45] As the Court explained over 100 years ago, "the want of uniformity in commercial regulations[ ] was one of the grievances of the citizens under the Confederation; and the new Constitution was adopted, among other things, to remedy those defects in the prior system."[46] States feared regional alliances would result in discrimination against groups of States.[47] The Supreme Court thus held that "Congress, as well as the States, is forbidden to make any discrimination in enacting commercial or revenue regulations."[48]
>
> The uniformity requirement of the Commerce Clause, as applied to the States themselves, is further mandated by the broader and more fundamental principle that "all the States enjoy 'equal sovereignty.'"[49] This principle provides that "[t]here can be no distinction between the several states of the Union in the character of the jurisdiction, sovereignty, and dominion which they may possess and exercise over persons and subjects within their respective limits."[50] Although the doctrine of equal sovereignty "'does not bar…remedies for local evils which have subsequently appeared,'" any "departure from the fundamental principle of equal sovereignty requires a showing that a statute's disparate geographic coverage is sufficiently related to the problem that it targets."[51]
>
> There can be no doubt that PASPA denies New Jersey and the other disfavored States the sovereignty that it grants to Nevada and the favored States; while the latter States are free to permit, regulate, or prohibit sports wagering within their borders, New Jersey has no choice but to prohibit it. Yet the Senate Report makes clear that Congress did not consider sports wagering a "local evil[]," but instead a "national problem" with effects "felt beyond the borders of those States that sanction it."[52] Yet Congress limited the sovereignty only of the States that ***did not*** "sanction it."[53]

Though rarely addressed in modern case law, the notion of the uniformity requirement seems to strike a common sense chord of fundamental fairness, particularly in light of the historical context outlined by the defendants. Indeed, perhaps this is the very reason why the issue is raised so infrequently—rarely is Congress willing to discriminate among the states as blatantly as it does in PAPSA.

Despite the common sense appeal of the uniformity requirement, some constitutional law commentators have mourned that the historical uniformity requirement is effectively dead today, noting that the Court has drifted further and further away from the requirement as originally articulated.[54] These same scholars emphatically maintain that the eradication of the uniformity requirement is simply bad case law, deriving from a series of horribly mangled interpretations of an unfortunately worded bit of dicta in a case decided by the Court nearly a century ago.

The predecessor to the offending case was *Wilkerson v. Rahrer*,[55] an 1890 case involving the federal Wilson Act, passed by Congress amid a fury of debate regarding the appropriate role of the states in regulating the sale of alcoholic beverages shipped in interstate commerce. The Wilson Act ultimately gave states the right to prohibit the sale of imported liquor within their borders.[56] As commentator Thomas Skinner noted, in the debate surrounding the Wilson Act members of Congress wholeheartedly accepted the tenet that the Commerce Clause required them to regulate uniformly among the states. As such, they were concerned that the Wilson Act, by allowing states to create their own laws governing the sale of imported liquor, would run afoul of this principle.[57]

When the Wilson Act was ultimately passed and (of course) challenged in the Supreme Court, the Court clearly articulated a principle that is all but taken for granted today—that Congress may pass a law allowing the states to govern a particular matter as they see fit without running afoul of the Commerce Clause.[58] The Court ruled that, in passing the Wilson Act, Congress *had* treated the states uniformly—the statute was "uniform" in that it applied to every state equally. Though some *non*-uniformity would result from the various laws the states themselves may choose to enact, permitting the states to govern themselves on a particular matter clearly did not run afoul of the Commerce Clause or the uniformity requirement.[59]

This supremely logical principle was reaffirmed by the Court in a subsequent case, *James Clark Distilling Co. v. Western Maryland Railway Co.*, involving fundamentally similar issues. This time, the Court considered the Webb-Canyon Act, which was passed by Congress to address enforcement problems with respect to the Wilson Act.[60] The Webb-Canyon Act banned, at the federal level, the shipment of alcohol into states that prohibited or severely restricted the sale of alcohol.[61] As with the Wilson Act, opponents of the Webb-Canyon Act attempted to argue that the statute subverted the uniformity requirement of the Commerce Clause. As in *Rahrer*, the Court in *James Clark Distilling* again held that the Commerce Clause did not require all states to have uniform regulatory schemes—it only required that *federal law* treat all of the states equally.[62]

However, the *James Clark Distilling* Court did not end its discussion of the uniformity requirement with this simple ruling. Instead, in what Professor Thomas Colby has called "at best dysfunctionally inarticulate, at worst an ill-considered and erroneous dictum,"[63] the Court went on to draft a line that would turn out to be the first nail in the coffin of the uniformity requirement. Following its substantive ruling, the Court went on to state:

> But aside from this it is obvious that the argument seeks to engraft upon the Constitution a restriction not found in it, that is, that the power to regulate conferred upon Congress obtains subject to the requirement that regulations enacted shall be uniform throughout the United States.[64]

As Professor Colby has noted, the Court's statement, when read in conjunction with the rest of the *James Clark Distilling* case, and when placed into the context of the aggressive uniformity requirements being advocated by the challengers to the Webb-Canyon Act, was almost certainly intended simply to reiterate its earlier point—that the uniformity requirement of the Constitution did not require regulations enacted *by the states* to be uniform throughout the United States.[65]

Nonetheless, the Court's poorly worded dicta in *James Clark Distilling* ultimately gave rise to a line of cases that effectively eliminated the uniformity requirement—as originally articulated—from Supreme Court Commerce Clause jurisprudence.[66] A mere 22 years later, in *Currin v. Wallace*, the Court had so fully forgotten the once-esteemed principle of uniformity that it unflinchingly held, relying on *James Clark Distilling* for justification, that "[t]here is no requirement of uniformity in connection with the commerce power."[67]

This cumulative and somewhat sloppy error in constitutional interpretation is almost tragic, particularly in light of the extent to which the Framers made clear their intent that the Commerce Clause be interpreted to require uniform treatment among the states. It is downright disturbing, when taken to its logical extreme, to imagine the fundamental unfairness that could potentially result from an absolute elimination of uniformity requirement. As New Jersey noted in its brief on the issue, were the Court to unconditionally strip the uniformity requirement from the Commerce Clause:

> …no principled basis would exist to deny Congress the right to similarly limit car manufacturing to Michigan, cigarette manufacturing to Virginia, or fish processing to Alaska. Yet this was the very evil that the founders feared: that "'a combination of a few States in Congress might secure a monopoly of certain branches of trade and business to themselves, to the injury, if not the destruction, of their less favored neighbors.'"[68]

Indeed, New Jersey argues, this manifest discrimination among the states is the "very evil" that Congress has attempted to perpetrate with PAPSA, by securing a sports betting monopoly to a handful of favored states.

The argument is certainly not without merit, and will unquestionably appeal to core, fundamental principles of fairness and justice. Both pro-uniformity commentators and PAPSA opponents might also take comfort in the hope that the uniformity requirement may actually be "only mostly dead."[69] As New Jersey notes, despite *Currin*'s offensive language, the Court has never once considered anything akin to the blatant discrimination among the states perpetrated by PAPSA. Instead, the death-knell cases for the uniformity requirement considered either regulation that disproportionately impacted different individuals within a single state, or regulation that affected certain individuals differently because of local circumstances not present uniformly throughout the country.[70] In *Currin* itself, for example, the plaintiffs challenging the law in question were still challenging an ostensibly uniform law, one requiring the Secretary of Agriculture to designate selected tobacco auction markets throughout the country to have their tobacco inspected, graded, and certified by federal inspectors prior to sale.[71] The growers at the designated markets had to affirmatively accept the designation to become federally inspected by referendum vote. Twenty-three auction markets nationwide were so designated, including three in North Carolina—and each of the North Carolina markets voted by referendum to accept the designation.[72] However, certain tobacco warehousemen and auctioneers at one of the North Carolina markets challenged the statute permitting the designations, on the grounds that it would treat similarly situated, undesignated tobacco markets *elsewhere in the state* differently, and thus constituted discrimination under the Commerce Clause.[73] The Court held that, because the basis for designation of the markets was rationally justified, there was no constitutional violation.[74] However, it is particularly noteworthy that the statute in *Currin* still treated every state on an equal basis—any state that had tobacco auction markets could have those markets subject to designation for inspection by the Secretary of Agriculture.

Currin's progeny cases involve similarly benign circumstances. For example, in *Hodel v. Indiana,*[75] the plaintiffs' argument was based "solely on a statute's lack of uniform geographic impact," even though that disparity was the result solely of the inherently non-uniform geographical conditions among the states—the statute itself treated all states uniformly.[76]

As such, the Supreme Court has never addressed a statute that violates the uniformity principle, as originally intended by the Framers, as deliberately as PAPSA does. In both the realms of common sense and constitutional law, the state's arguments in the current litigation have a tremendous amount of appeal, and would appear to have at least a reasonable chance of success on the merits. It will be interesting to see how the Leagues and the Attorney General respond to New Jersey's uniformity arguments. It is also unclear whether, even if they were to agree with the state's arguments, either the District Court or the Third Circuit would be willing to issue a ruling that appears to conflict with the non-uniformity language articulated in *Currin*, or whether they would feel bound to defer to the offending language as binding precedent.

3. PAPSA Violates the Due Process and Equal Protection Rights of New Jersey's Residents

New Jersey's final constitutional argument is not nearly as exotic as its first two. The state contends that PAPSA's discrimination among the various states (and thus among the respective residents of those states) is so extreme, and so patently unjustified, as to constitute a violation of those residents' constitutional guarantees to Equal Protection and Due Process. New Jersey argues that, in its Equal Protection and Due Process Clause jurisprudence:

> The Supreme Court only permits discrimination against States with respect to their sovereign powers (here, to regulate sports wagering) where the "statute's disparate geographic coverage is sufficiently related to the problem that it targets."[77] This test requires a "fit" between the targeted problem and the scope of the statute akin to the congruence and proportionality test under the Fourteenth Amendment.[78] PASPA turns this notion upside down. While the most significant legal sports wagering existed at the time of enactment, and exists now, in the state of Nevada, PASPA permits that wagering to continue unabated. Yet PASPA prohibits sports wagering in States where such wagering has never legally taken place. In PASPA, Congress identified where a supposed problem existed—and regulated elsewhere.[79]

Thus, New Jersey argues, "PASPA's baseless distinction between the States, and the citizens of favored and disfavored States, fails even the more forgiving rational basis test required by the Due Process and Equal Protection Clauses."[80]

In light of the highly unusual and seemingly capricious manner in which Congress determined which states would be permitted to sponsor sports gambling activity in PAPSA, the state's Equal Protection and Due Process arguments do appear to have potential merit. However, given the historically forgiving nature of the rational basis test for congressional action, it seems highly unlikely that a court would strike down PAPSA on these grounds alone. Nonetheless, if either the District Court or the Third Circuit is on the fence with respect to New Jersey's anti-commandeering or uniformity arguments, the Equal Protection and Due Process claims may provide an additional justification for striking down the statute.

How the Leagues Win Even if They Lose

Governor Christie and New Jersey have advanced some intriguing, exceptional, and markedly persuasive constitutional arguments in favor of invalidating PAPSA. Nonetheless, there is good reason to believe that the Leagues are not losing any sleep over whether they win or lose the case in New Jersey. From the Leagues' perspective, they likely win regardless of the outcome in court.

As the state noted in detail in its brief on the issue of Article III standing, there is little serious evidence to suggest that expanded sports gambling, legal or illegal, has caused or will cause actual harm to the Leagues. In the 20-year period since PAPSA was enacted, the estimated annual volume of legal sports wagering in Nevada has nearly doubled, from $1.5 billion to $2.9 billion a year.[81] The growth in the estimated volume of illegal sports wagering in the United States makes Nevada's legal market look like pocket change—the annual illegal sports betting market was estimated to be around $50 billion in 1992, whereas current estimates value the market at somewhere between $270 to $500 billion a year, an exponential expansion undoubtedly aided in part by widespread access to the Internet.[82] In spite of this national explosion in sports gambling activity, the Leagues have also enjoyed unprecedented growth and success. For example, the NFL has grown into a $10 billion per year powerhouse,[83] and has become more profitable every year—this despite the fact that illegal wagering on the Super Bowl alone is estimated to be at least $6 billion per year.[84] Even the NCAA, which might arguably have the most legitimate claim to potential harm from expanded sports gambling (due to its principles of amateurism, and the sheer number of athletes, coaches and officials involved in its athletic events, who might theoretically be susceptible to participate in point-shaving or match-fixing schemes), has experienced extraordinary growth and popularity in the past two decades. For example, the annual value for the TV rights to the NCAA men's basketball championship tournament (March Madness), which stimulates an estimated $2.5 billion per year in gambling activity, has grown from approximately $35 billion in the early 1980s to an estimated $770 billion (adjusted for inflation) today.[85]

Furthermore, in spite of the national explosion of sports gambling activity, there is no real evidence that any of the theoretical evils potentially associated with sports betting—namely match-fixing or point-shaving[86]—have increased at all as a result.[87] To the contrary, a reasonable interpretation of the available evidence appears to indicate that, if anything, the already rare frequency of match-fixing has decreased over the past 20 years, despite the growth in sports gambling activity.[88] Indeed, it may well be the case that the existence of legalized, regulated sports gambling in Nevada assists the Leagues in detecting and enforcing against suspected incidents of match-fixing, by making it easier to detect unusual patterns in sports wagering activity.[89]

Thus, the Leagues arguably have not suffered, financially or in terms of popularity, as a result of the national proliferation of legal and illegal sports gambling, and appear not to have suffered any damage to their reputation or perception of integrity. Collectively and individually, the Leagues are more popular today in the United States than ever before. Indeed, many sports enthusiasts strongly believe that sports gambling affirmatively benefit the Leagues, by generating increased interest in, discussion about, and attention to all types of sporting events. As one sports commentator has opined:

> If anything, major sports leagues—the NFL in particular—have benefited from legal sports betting, with the betting line always a prominent part of any discussion leading up to a big game. It's part of the fabric of big-time sports, and without it we'd never know that Alabama is a 9.5-point favorite over Notre Dame in the BCS game.[90]

The widespread proliferation and recognition of media and popular culture discussions of sports gambling certainly supports this view. Popular sports media figures such as ESPN's Bill Simmons, Scott Van Pelt, Ryen Rusillo, and even Mike Greenberg and Mike Golic (of "Mike & Mike in the Morning") frequently and openly discuss sporting events by referencing and debating the Vegas betting line. As part of his Grantland website, Simmons hosts a popular weekly podcast during the NFL season wherein he and a friend challenge each other to see who can most closely predict the point spreads for each of the upcoming week's NFL games.[91] Even ESPN itself, the self-proclaimed "Worldwide Leader in Sports," sponsors an entire podcast devoted to all forms of sports gambling, "Behind the Bets, with Chad Millman."[92] The proliferation of sports gambling media attention reflects widespread fan interest in the subject. Fans with gambling interests will pay attention even to games that are predicted to be blowouts by one side or the other, in order to effectively bet against the point spread, or will watch games through to the final buzzer in order to see whether or not a team will cover the spread.

In light of this reality, it is almost disingenuous for the Leagues to assert that expanded legalized sports gambling will be injurious to their interests, and it seems downright dishonest for them to feign as though sports gambling were not already a deeply embedded part of the national popular sports culture. NBA Commissioner David Stern came very close to admitting this in a 2009 interview with *Sports Illustrated*, where he expressed his opinion that his league's strict anti-gambling policy "was formulated at a time when gambling was far less widespread—even legally…. But having said that, it's now a matter of national policy: Gambling is good."[93]

As such, the Leagues might feel as if they have an excellent hedge against losing the lawsuit in New Jersey. Indeed, if they, like so many commentators, believe that increased sports gambling activity actually increases League revenues, they might even be secretly hoping to lose the case. This is not to say that the Leagues will not litigate the case to the best of their abilities, and the Leagues have nothing to lose by rigorously defending PAPSA. Doing so will likely help to placate any anti-gambling factions of their fan bases, while, win or lose, sports gambling as we know it will continue to be an integral part of the national sports culture. Indeed, that is one of the most fascinating aspects of this case—it seems as though the Leagues will win, regardless of who wins in court.

Conclusion: Betting on New Jersey

It goes without saying that challenging the constitutional validity of a duly enacted federal statute in court is always a substantial uphill battle. Governor Christie and the state of New Jersey are decidedly the underdogs in their case against the Leagues. That said, the state's strong constitutional arguments, and particularly its uniformity argument, will allow New Jersey to beat the odds. One can bet that the courts will ultimately strike down PAPSA and allow New Jersey's sports wagering scheme to move forward.

Endnotes

1. Professional and Amateur Sports Protection Act, 28 U.S.C. §§ 3701(5), 3702 (1992).
2. N.J. Stat. Ann. 5:12A-1, et seq. (West 2012).
3. Nat'l Collegiate Athletic Ass'n, et al. v. Christie, et al., No. CV124947, 2012 WL 3171566, ¶¶ 17-29 (D. N.J. Aug. 7, 2012) (complaint). The lawsuit was filed as a *Young ex parte* suit against the Governor and other state officials, rather than against the state itself. *See* 209 U.S. 123 (1908). This article will refer to "New Jersey" or "the state" as shorthand reference to these state officials, representing the state's interests in the litigation.
4. Nat'l Collegiate Athletic Ass'n, et al. v. Christie, et al., No. 3:12-cv-04947, 2012 WL 6698684, at *1(D. N.J. Dec. 21, 2012) (memorandum opinion denying defendants' motion to dismiss, and denying defendants' motion for summary judgment with respect to the issue of plaintiffs' standing).
5. Nat'l Collegiate Athletic Ass'n, et al. v. Christie, et al., No. CV124947, 2012 WL 6020639 (D. N.J. Nov. 21, 2012) (memorandum in support of defendants' cross-motion for summary judgment and in opposition to plaintiffs' motion for summary judgment), at 3-4.
6. The statute does not apply to pari-mutuel animal racing or jai-alai games. 28 U.S.C. § 3704(a)(4).
7. 28 U.S.C. § 3702.
8. S. Rep. No. 102-248, at 4 (1991).
9. *See* 28 U.S.C. § 3704.
10. 28 U.S.C. §3704 (3)(A)-(B).
11. *See* Thomas L. Skinner III, *The Pendulum Swings: Commerce Clause and Tenth Amendment Challenges to PAPSA*, 2 UNLV Gaming L.J. 311, fn. 8 (2011).
12. 28 U.S.C. § 3703.
13. OFC Comm Baseball v. Markell, 579 F.3d 293 (3d Cir. 2009), *cert. denied*, 130 S.Ct. 2403 (2010).
14. 579 F.3d at 295–96.
15. *Id.* at 304.
16. 28 U.S.C. § 3704(a)(1).
17. *Markell*, 579 F.3d at 301.
18. *Id.* at 301-02.
19. *Id.* at 303.
20. Flager v. United States Attorney for Dist. Of New Jersey, No. 06-3699 (JAG), 2007 WL 2814657, at *1 (D.N.J. Sept. 25, 2007).
21. Interactive Media Entm't & Gaming Ass'n, Inc. v. Holder, No. 09-1301 (GEB), 2011 WL 802106, at *2 (D.N.J. Mar. 7, 2011).
22. Interactive Media Entm't & Gaming Ass'n, Inc. v. Holder, No. 09-cv-01301, 2009 WL 4890878, at ¶ 56 (D. N.J. Mar. 23, 2009) (complaint).
23. *Flager*, 2007 WL 2814657, at *2–3; *Interactive Media*, 2011 WL 802106 at *6–8.
24. Any sports fan can attest to the extent to which the recent series of lockouts and work stoppages in the NBA, NFL, and NHL have done nothing to raise the esteem of these Commissioners in the court of public opinion, while MLB Commissioner Bud Selig has long been a character that baseball fans love to hate. *See, e.g.*, Scott Barzilla, *Bud Selig: An Open Letter to the Worst Commissioner in Baseball History*, Bleacher Report (Oct. 25, 2011) http://bleacherreport.com/articles/910958-bud-selig-an-open-letter-to-the-worst-commissioner-in-baseball-history. Further, the public reaction to the NCAA's recent handling of matters such as the Jerry Sandusky scandal at Penn State University and player eligibility issues at The Ohio State University highlights the extent to which sports fans bask in the opportunity to criticize that body and its President. *See, e.g.*, Bob Kravitz, *NCAA should be flagged for piling on Penn State*, USA Today (Jul. 24, 2012, 11:05 AM), *available at* http://usatoday30.usatoday.com/sports/columnist/kravitz/story/2012-07-23/NCAA-piling-on-in-Penn-State-case/56441878/1.
25. Nat'l Collegiate Athletic Ass'n, et al. v. Christie, et al., No. 3:12-cv-04947 (D. N.J. Sept. 11 and Oct. 2, 2012) (orders granting Motions for Leave to Appear Pro Hac Vice as to Theodore B. Olson, Esq., and Paul D. Clement, respectively).
26. *See* Nat'l Fed'n of Indep. Bus. v. Sebelius, et al., 132 S.Ct. 2566, 2585-91 (2012).
27. Nat'l Collegiate Athletic Ass'n, et al. v. Christie, et al., No. 3:12-cv-04947 (D. N.J. Nov. 21, 2012) (notice of constitutional challenge).
28. New York v. United States, et al., 505 U.S. 144, 188 (1992).
29. Printz v. United States, 521 U.S. 898, 935 (1997).
30. *New York*, 505 U.S. at 161 (quoting *Hodel v. Va. Surface Mining & Reclamation Ass'n, Inc.*, 452 U.S. 264, 288 (1981)).
31. *Id.*
32. Nat'l Collegiate Athletic Ass'n, et al. v. Christie, et al., No. 3:12-cv-04947, 2012 WL 6020639 (D. N.J. Nov. 21, 2012) (memorandum in support of defendants' cross-motion for summary judgment and in opposition to plaintiffs' motion for summary judgment), at 23-24 (internal citations moved to internal endnotes).
33. Nat'l Collegiate Athletic Ass'n, et al. v. Christie, et al., No. 3:12-cv-04947, 2012 WL 6020639 (D. N.J. Nov. 21, 2012) (memorandum in support of defendants' cross-motion for summary judgment and in opposition to plaintiffs' motion for summary judgment), at 25.
34. *New York*, 505 U.S. at 166.
35. Nat'l Collegiate Athletic Ass'n, et al. v. Christie, et al., No. 3:12-cv-04947, 2012 WL 6020639 (D. N.J. Nov. 21, 2012) (memorandum in support of defendants' cross-motion for summary judgment and in opposition to plaintiffs' motion for summary judgment), at 25.
36. *New York*, 505 U.S. at 168.
37. *Id.*
38. *Id.*
39. *Id.*
40. Nat'l Collegiate Athletic Ass'n, et al. v. Christie, et al., No. 3:12-cv-04947, 2012 WL 6020639 (D. N.J. Nov. 21, 2012) (memorandum in support of defendants' cross-motion for summary judgment and in opposition to plaintiffs' motion for summary judgment), at 26 (internal citations moved to internal endnotes).
41. An interesting thought experiment can be derived from analogizing New Jersey's action in passing the Sports Wagering Law with recent state legislative action in Washington and Colorado, legalizing the use of recreational marijuana. What if, rather than making marijuana possession a federal criminal offense, Congress

chose instead to require that every *state* make it a criminal offense, thus requiring the states to spend their own resources enforcing the state laws, and forcing state politicians to bear the political brunt of a potentially unpopular decision made by Congress? I think that, regardless about how one feels about the legalization of marijuana, most people would agree that this would be a patently improper abuse of Congressional authority.

42. For an excellent and thorough examination of the history of Supreme Court jurisprudence regarding the uniformity requirement, and a thoughtful analysis (which pre-dates the current litigation) of how this little-discussed principle might apply to PAPSA, *see* Skinner, *supra* note 11.
43. Nat'l Collegiate Athletic Ass'n, et al. v. Christie, et al., No. 3:12-cv-04947, 2012 WL 6020639 (D. N.J. Nov. 21, 2012) (memorandum in support of defendants' cross-motion for summary judgment and in opposition to plaintiffs' motion for summary judgment), at 33.
44. *See* U.S. Const. art. 1, § 8.
45. *Pennsylvania v. West Virginia*, 262 U.S. 553, 596 (1923).
46. *Ward v. Maryland*, 79 U.S. 418, 431 (1871); *see also* Thomas B. Colby, *Revitalizing the Forgotten Uniformity Constraint on the Commerce Power*, 91 Va. L. Rev. 249, 270 (2005) ("The inability to create uniform rules was the problem—the very reason why the new nation needed a federal commerce power.").
47. Colby, *supra* note 46, at 276.
48. *Ward*, 79 U.S. at 431.
49. *Nw. Austin Municipal Utility Dist. Number One v. Holder*, 557 U.S. 193, 203 (2009).
50. *Illinois Cent. R. Co. v. State of Illinois*, 146 U.S. 387, 434 (1892).
51. *Nw. Austin*, 557 U.S. at 203 (quoting *South Carolina v. Katzenbach*, 383 U.S. 301, 328-29 (1966)) (alteration in original).
52. Sen. Rep. 102-248, at 5.
53. Nat'l Collegiate Athletic Ass'n, et al. v. Christie, et al., No. 3:12-cv-04947, 2012 WL 6020639 (D. N.J. Nov. 21, 2012) (memorandum in support of defendants' cross-motion for summary judgment and in opposition to plaintiffs' motion for summary judgment), at 33-34 (internal citations moved to internal end notes) (emphasis in original).
54. *See* Skinner, *supra* note 11, at 313, 335; Colby, *supra* note 46, at 258.
55. Wilkerson v. Rahrer, 140 U.S. 545 (1891).
56. *See* Skinner, *supra* note 11, at 332.
57. *Id.*
58. *See* Colby, *supra* note 46, at 297.
59. *See id.* ; *see also* Skinner, *supra* note 11, at 334.
60. *See James Clark Distilling Co. v. Western Maryland Railway Co.*, 242 U.S. 311 (1917).
61. *See* Skinner, *supra* note 11, at 334.
62. *See James Clark Distilling Co.*, 242 U.S. at 326-27.
63. *See* Colby, *supra* note 46, at 297.
64. *James Clark Distilling Co.*, 242 U.S. at 327.
65. *See* Colby, *supra* note 46, at 299-300.
66. *See* Skinner, *supra* note 11, at 335.
67. *Currin v. Wallace*, 306 U.S. 1, 14 (1939).
68. Nat'l Collegiate Athletic Ass'n, et al. v. Christie, et al., No. 3:12-cv-04947, 2012 WL 6020639 (D. N.J. Nov. 21, 2012) (memorandum in support of defendants' cross-motion for summary judgment and in opposition to plaintiffs' motion for summary judgment), at 35 (quoting *United States v. Ptasynski*, 462 U.S. 74, 81 (1983).
69. The Princess Bride (20th Century Fox 1987).
70. *See* Nat'l Collegiate Athletic Ass'n, et al. v. Christie, et al., No. 3:12-cv-04947, 2012 WL 6020639 (D. N.J. Nov. 21, 2012) (memorandum in support of defendants' cross-motion for summary judgment and in opposition to plaintiffs' motion for summary judgment), at 34-35.
71. *Currin*, 306 U.S. at 5-8 .
72. *Id.* at 8.
73. *Id.* at 9.
74. *Id.* at 9.
75. *Hodel*, 452 U.S. 314, 331(1981).
76. *See id.* at 331.
77. *Nw. Austin*, 557 U.S. at 203.
78. *Shelby County v. Holder*, 679 F.3d 848, 859 (D.C. Cir. 2012); *id.* at 885 (Williams, J., dissenting).
79. Nat'l Collegiate Athletic Ass'n, et al. v. Christie, et al., No. 3:12-cv-04947, 2012 WL 6020639 (D. N.J. Nov. 21, 2012) (memorandum in support of defendants' cross-motion for summary judgment and in opposition to plaintiffs' motion for summary judgment), at 36-37 (internal citations moved to internal footnotes).
80. *Id.* at 37.
81. *Id.* at 4.
82. *Id.* at 5.
83. *Id.* at 6.
84. *Id.* at 15, 18.
85. *Id.* at 19.
86. "Match-fixing" refers to the idea of participants in a sporting event (players, coaches, or officials) intentionally altering (or attempting to alter) the outcome of the event for gambling reasons. "Point-shaving" refers specifically to the idea of sport participants intentionally acting, motivated again by gambling reasons, to prevent a team from covering the previously published point spread or betting line on an event. Evidence shows that both of these are rare in the United States. *See id.* at 13-14.
87. *Id.* at 13-14.
88. *Id.* at 13.
89. *See id.* at 14.
90. Tim Dalhberg, *Column: Opposition to Sports Betting Rooted in Times Gone By*, Newser (Jan. 5, 2013, 5:02 PM) http://www.newser.com/article/da3kb21o2/column-opposition-to-sports-betting-rooted-in-times-gone-by.html. Tragically, to this Notre Dame fan, Alabama did, indeed, easily cover the point spread in the BCS National Championship Game, in a 42-14 rout over the Irish on January 7, 2013.
91. *See, e.g.*, Bill Simmons, *The B.S. Report: Cousin Sal*, Grantland (Dec. 24, 2012, 3:52 PM), http://www.grantland.com/blog/the-triangle/post/_/id/46180/the-b-s-report-cousin-sal-3.
92. *Behind the Bets with Chad Millman*, ESPN, http://sports.espn.go.com/espnradio/podcast/archive?id=5395837.
93. Ian Thomsen, *Inside the NBA: Weekly Countdown: Stern Open to Legalized Gambling, Rule Changes*, Sports Illustrated (Dec. 11, 2009, 12:17 PM) http://sportsillustrated.cnn.com/2009/writers/ian_thomsen/12/11/weekly.countdown/index.html.

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The Naked Cowboy Erodes Protections Under New York Civil Rights Law

By Jason R. Denny

New York State has taken pride in being a safe haven for the entertainment industry. Among the statutory protections afforded in New York is the right to privacy. Contrary to the colloquial use of the term, the right of privacy in New York State has been codified as the right of publicity and incorporates a property right that protects the exploitation of a person's name, portrait, picture or voice for commercial use without first obtaining written consent[1] and is not concerned with preventing an unauthorized intrusion into one's personal life. However, case law in New York State has eroded these rights to a pale specter of the original intentions.

The concept of a right of publicity is not new. Louis Brandeis and Charles Warren are credited with introducing the concept in an 1890 law review article entitled "The Right to Privacy."[2] The article expressed one's right "to be let alone"[3] and "to what extent his thoughts, sentiments, and emotions shall be communicated to others."[4] Though Brandeis and Warren did not use the phrase "right of privacy," the article led to the recognition of a common law right.

Almost a decade after the historic article by Brandeis and Warren, New York State recognized the need to codify the right. This need was demonstrated through the 1902 case *Roberson v. Rochester Folding Box Co.*,[5] when a claim for a right of privacy was enumerated by a young girl named Abigail Roberson. A flour company had used an image of Ms. Roberson in an advertisement for its product absent consent from Ms. Roberson and did not pay her for the use. The court dismissed Ms. Roberson's claim, holding that "in the absence of legislation, the plaintiff…had no cause of action."[6]

Due to public outcry, within a year of the decision the New York Legislature enacted Section 50 and 51 of the New York Civil Rights Law.[7] This legislation was groundbreaking and the first attempt of any state to create a cause of action for the right of publicity outside of the common law. Titled "Right of Privacy," Section 50 states a criminal cause of action for the use, "for advertising purposes, or for the purposes of trade, the name, portrait or picture of any living person without having first obtained the written consent of such person…"[8] Section 51 creates a civil cause for injunction and damages based on Section 50.[9] In 1995 the New York legislature expanded the protections in Section 51 to include a claim for the misappropriation of one's voice in conjunction with the existing protections for the name, portrait, or picture of a living person.[10]

Despite the appearance of affording the utmost protections to the right of privacy, case law suggests that New York Law is actually antiquated on the subject. Sections 50 and 51 are limited in their reach because of the First Amendment. They do not apply to "reports of newsworthy events or matters of public interest,"[11] works of art,[12] and broadcasts otherwise protected by the First Amendment for reasons of fair use or parody.[13] *Burck v. Mars*[14] demonstrates the further erosion of the supposed protections afforded under New York Law.

In 2008, Robert Burck, a street performer in New York City's Times Square, filed a cause of action against Mars, Inc. (Mars), the manufacturer of the M&M's candy, for violations of the Lanham Act and New York Civil Rights Law Sections 50 and 51. Burck traditionally performed in the Times Square area of New York City wearing only a cowboy hat, cowboy boots, white underwear, and carried a guitar strategically placed to give the illusion of nudity. Burck registered trademarks to the name "Naked Cowboy" as well as the costume he wears. Mars hired Chute Gerdman to develop an advertising campaign for the M&M brand of candies. The advertisements ran only in the Times Square area where the M&M's brand has a large store. In question were two billboards. The first board depicted a blue M&M dressed in similar garb to that registered as a trademark by Burck. The second depicted a series of scenes where different colored M&Ms were dressed as iconic New York City landscapes (such as the Statue of Liberty or as a gorilla scaling the side of the Empire State Building). In this advertisement, a blue M&M was again dressed in similar garb to that registered as a trademark by Burck. Burck brought suit due to the alleged similarities in the dress worn by the blue M&M in the advertisements and his registered trademark, along with a claim under the Lanham Act.[15]

"To maintain a civil action under section 51, a plaintiff must show that the defendant (1) used his name, portrait, picture, or voice, (2) for advertising or trade purposes, (3) without his written consent."[16] "Over the years there has been much litigation over what constitutes a person's 'portrait' or 'picture' for purposes of Sections 50 and 51. It is settled that 'any recognizable likeness, not just an actual photograph, may qualify as a 'portrait or picture.'"[17] The New York Supreme Court has unequivocally held that "'a representation which conveys the essence and likeness of an individual…which was intended to be, and did, in fact, convey the idea that it was the plaintiff' was a picture or portrait for purposes of the Civil Rights Law."[18] Armed with the ammunition of the precedent set in *Onassis v. Christian Dior–New York, Inc.*, Burck brought suit claiming that the Mars advertisements clearly constituted a recognizable likeness of his persona.

In lieu of the foregoing, the court in *Burck* granted the defendants' motion for summary judgment with regard to the New York Civil Rights Law Section 50 and 51 claims. The court held that the statutory right to privacy extends only to living persons. The court erroneously concluded that this language does not intend to extend to fictional characters created by living persons. In support of this argument, the Court cited to *Lombardo*.[19] *Lombardo* involved a fact pattern where the conductor Guy Lombardo filed a claim "based on a commercial showing an actor conducting a band playing "Auld Lang Syne" at a New Year's Eve party much as Lombardo had done for decades. The [Lombardo] court held that 'it is clear that the Civil Rights Law is to be strictly construed and is not to be applied so as to prohibit the portrayal of an individual's personality or style of performance.'"[20]

While it is true that "personality or style of performance" is not protected under New York Civil Rights Law Sections 50 and 51, this issue was not in contention in *Burck*. Burck does not claim that Mars usurped his personality or style of performance, but rather his essence or likeness. Consider the following to demonstrate that the argument is not merely an issue of semantics: If one were to create a cartoon caricature dressed in a tuxedo and holding a baton, a person would not recognize the caricature as being Lombardo. The cartoon could represent any number of individuals. Something more, such as the style of performance, is needed to place the caricature in context to make the cartoon recognizable as Lombardo. In contrast, if a caricature was drawn of a man in a white cowboy hat, cowboy boots, and holding a guitar, people would readily state the caricature was of The Naked Cowboy. Context is not needed in this scenario because the outfit transcends style and has become part of Burck's essence.

Likewise, the court asserted that the plain language of Section 50, "any living person," meant the statute did not extend a cause of action to fictitious characters. The assertion was in contradiction to the long lineage of cases already handed down, which commonly held that the purpose of the language "any living person" is to limit the statutory rights to the life of an individual,[21] not to limit protection to actors using stage names.

In furtherance of this argument one should consider the case of *Allen v. National Video, Inc.* Woody Allen brought action against National Video, Inc. for creating an advertisement utilizing a look-alike actor, Boroff, in lieu of Allen. The defendants did not deny that Boroff had a striking resemblance to Allen or that Boroff stands in a pose characteristic of Allen. The defendants did not deny that "Boroff was selected and posed as he was to capitalize on his resemblance to plaintiff and to attract the attention of movie watchers [and] that defendants Boroff and Smith were aware of this purpose in agreeing to supply Boroff's services."[22] The court referenced the case of *Onassis v. Christian Dior–New York, Inc.* to stand for the proposition that look-alike actors may violate Sections 50 and 51 of the New York Civil Rights Law. "The [Onassis] court held that an exact duplication of plaintiff was not necessary to make out a cause of action under the statute, so long as the overall impression created clearly was that plaintiff had herself appeared in the advertisement."[23] While the *Allen* court held it unnecessary to resolve the privacy claim, as other remedies were available to the plaintiff, the court clearly stated that "if defendants had used…a cartoon of plaintiff, it would certainly constitute a 'portrait or picture' within the meaning of the statute."[24] Moreover, the court held "the use in an advertisement of a drawing, which has no other purpose than to represent its subject, must give rise to a cause of action under the Civil Rights Law, because it raises the obvious implication that its subject has endorsed or is otherwise involved with the product being advertised." Arguably in *Burck*, the blue M&M dressed in the cowboy outfit in the advertisement consisting of New York City landmarks had no other purpose than to represent the subject, Burck, and therefore Burck should have been able to maintain a cause of action under the Civil Rights Law. As such, the court in *Burck* erroneously departed from the clearly established precedent created in *Allen* and *Onassis* that the terminology "picture or portrait" is not to be literally construed and that protection should be afforded where cartoons are used in the allegedly infringing advertisement.

To hold as the court did in *Burck* is to create a situation where actors using their legal names are afforded greater protection than those using stage names, particularly when considering the amended language of Section 51, which affords protections to a person's voice. To hold that fictional characters are not protected, yet allow for protection of distinctive voices, would create an internal paradox when one considers voiceover artists. Such artists bring to life fictional characters, yet the voice may still be protected. Additionally, it is not logical to interpret the statute to protect individuals acting under their given names and voiceover artists, but to exclude actors using stage names. Therefore, the language "living person" cannot be intended to mean that fictional characters are not protected under the statute. Reading the statute as the court did in *Burck* creates the situation where a fictional character is protected, i.e. voiceover cartoons are protected under the modified statute protecting voices, yet fictional characters are not protected because they are not living people. Hence, under this court's interpretation, fictional characters are both protected and not protected, thereby creating a paradox.

In light of New York State's long tradition of protecting the privacy rights of citizens, a recent court decision stands to erode those rights to the point of being almost unrecognizable. New York does not recognize a common law right of publicity, so constituents are forced to rely solely upon Sections 50 and 51 of the New York Civil Rights Law for protection. A recent decision of the court has held that these protections are not afforded to fictional characters. This decision was handed down despite a long lineage of cases holding the statute does not require that the plaintiff show that an actual photograph of him or her is used. Previously, a cause of action remained where a defendant used a look-alike model, and it has been stated that a cause of action may exist even if the defendant uses a cartoon image rather than an actual photograph. Moreover, the clear intention of the legislature was to protect fictional characters to avoid the creation of an internal paradox. However, if the court in *Burck* is to be relied upon, these protections are no longer afforded to fictional characters.

Endnotes

1. *See* N.Y. Civ. Rights Law § 50 (McKinney 1995).
2. *See* Louis Brandeis & Charles Warren, *The Right to Privacy,* 4 Harv. L. Rev. 193 (1890).
3. *Id.* at para. 1.
4. *Id.* at para. 9.
5. Roberson v. Rochester Folding Box Co., 171 N.Y. 538 (N.Y. 1902).
6. *Id.* at 543-44.
7. *See* Lerman v. Flynt Distrib. Co., 745 F.2d 123, 129 (2d Cir. 1984).
8. *See* N.Y. Civ. Rights Law § 50 (McKinney 1995).
9. *See* N.Y. Civ. Rights Law § 51 (McKinney 1995).
10. *See* N.Y. Civ. Rights Law §§ 50-51 (McKinney 1995).
11. Messenger v. Gruner + Jahr Printing & Publ'g, 94 N.Y.2d 436, 441 (2000).
12. Hoepker v. Kruger, 200 F. Supp. 2d 340, 349 (S.D.N.Y. 2002); Altbach v. Kulon, 302 A.D.2d 655, 657 (N.Y. App. Div. 2003).
13. *See* Geary v. Goldstein, 831 F. Supp. 269, 273 (S.D.N.Y. 1993) (quoting Frank v. Nat'l Broad. Co.,119 A.D.2d 252, 257 (N.Y. App. Div. 1986)).
14. Burck v. Mars, 571 F. Supp. 2d 446 (S.D.N.Y. 2008).
15. The Lanham Act claim is outside the scope of this article. *See id* for more information concerning this aspect of the case.
16. *Id.* at 451 (citing Allen v. Nat'l Video, Inc., 610 F.Supp. 612, 621 (S.D.N.Y.1985)).
17. *Id.* (citing *Allen*, 610 F.Supp. at 622).
18. Onassis v. Christian Dior–New York, Inc., 122 Misc.2d 603, 611 (N.Y. Sup. Ct. 1984).
19. Lombardo v. Doyle, Dane & Bernbach, Inc., 58 A.D.2d 620, 622 (N.Y. App. Div. 1977).
20. *Id.*
21. *See* Pirone v. Macillan, Inc., 894 F.2d 579, 585 (2d Cir. 1990); Factors Etc., Inc. v. Creative Card Co., 444 F. Supp. 279, 284-85 (S.D.N.Y. 1977), *rev'd by* 652 F.2d 278 (2d Cir. 1987); Smith v. Long Island Jewish -Hillside Med. Ctr., 499 N.Y.S.2d 167, 168 (N.Y. App. Div. 1986); Brinkley v. Casablancas, 438 N.Y.S.2d 1004, 1010 (N.Y. App. Div. 1981); Antonetty v. Cuomo, 502 N.Y.S.2d 902, 906 (N.Y. Sup. Ct. 1986).
22. *Allen*, 610 F.Supp. at 618.
23. *Id.* at 623 (citing *Onassis v. Christian Dior–New York, Inc.,* 472 N.Y.S.2d 254, 262).
24. *Id.* at 623.

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The Current Digital Music Marketplace as Analyzed Through Three Real-World Examples

By David Keady

I. An Introduction to the Analysis

It is impossible to predict the evolution and the methods by which collective society absorbs popular culture. Whether one examines printed media, music, film or television, each content industry evolves and exploits new methods of customer delivery at an ever-changing, ever-increasing rate. Customers expect instant gratification.

Simultaneously, the customer demands that content providers "keep pace," delivering purchased content via the latest technology and using the latest digital devices.[1] Furthermore, the customer expects these delivery methods to work with a wide variety of social networking tools. Young, creative individuals willing to fill this large market often adopt and formulate media services with delivery methods far ahead of what the current industry can satiate. Adding to these complexities, the legal requirements and licensing behind digital delivery methods and content services do not provide a streamlined way to fully exploit the current media marketplace, not to mention the vast amount of consumer demand.[2]

There are many examples of music delivery start-ups failing as a result of heavy pressure from content owners and the financial burden of licensing restrictions.[3] A few such startups who were luckier than others evolved into more prominent forces, gaining the attention of major record labels, artists and content consumers.[4] While not directly an example of a media delivery service (yet), Facebook at the very least showed the technology and global marketplace that independent, youthful, technologically savvy individuals can completely change the way we interact and absorb our collective culture, let alone the outside world.

The focus of this article lies specifically on copyrighted musical works, their underlying musical compositions, and master sound recordings. Many legal students and academics have examined the nexus of tension where rapidly evolving technology and delivery methods clash with the current United States Copyright Act.[5] At its most basic level, this clash involves a complex licensing system. The licensing system often deters media entrepreneurs entirely or is so costly that progress is financially infeasible.[6]

Part II is an attempt to concisely outline this nexus of tension and resulting litigation. It focuses on the current United States Copyright Act, specifically the additional rights created by the Digital Millennium Copyright Act (DMCA). Part II also highlights licensing and content delivery issues inherent in the digital public performance right.

More important than a simplified understanding of the media-licensing minefield are the current real world examples of how innovative technology, with limitless potential, struggles under the heavy burden from content owners strictly applying the Copyright Act. The legal hurdles these innovators face often vary wildly depending on the methods of delivery and the digital services offered.

It would be redundant to re-examine this nexus entirely. The most valuable analysis lies in discussing real world examples of the potential available in this vast digital marketplace. Within this analysis, one finds not only possibilities, but also digital services destined to fail, because of the overly burdensome Copyright Act. As such, Part III will examine three very different services, all of whom are facing the very same copyright problems.

The first example of a content delivery service, many would argue, is the most controversial and technologically complex system currently controlling how users absorb music.[7] That service is Muziic (along with its contemporaries) and its utilization of Google's YouTube video site and API functionality. As discussed in detail below, YouTube creates a method for third party services to exploit its embedded code and offer content without paying copyright owners or artists.[8] Muziic exploits this functionality; it highlights the complex and unique ways that services attempt to work around the legal landscape involved in creating a digital music business. Rather than conform to the legal standards required, Muziic avoids the licensing system entirely. These loopholes have not gone unnoticed by content owners.[9] However, the law does not provide a readily available or valid claim on which relief can be granted—if relief is even warranted.

The next service to be examined is a very complex example of crossing user interaction with music delivery methods in the current legal landscape. Turntable.fm, a recently well-publicized service, utilizes the functionality of a third party uploading service called MediaNet.[10] Using MediaNet, Turntable.fm represents a novel way to share music with a large group of friends in private "DJ rooms."[11] Turntable.fm has the potential to become a massively exploitable advertising and marketing tool, while simultaneously remaining primarily a service about sharing new musical discoveries or personal tastes. The key issues for Turntable.fm revolve around the interactive digital performance, copyright licensing, its relatively young management team, and financing. Furthermore, is a service like Turntable.fm capable of generating revenue for artists without ruining the user experience? If content owners have their way, the answer to this question is likely no. Regardless, Turntable.fm serves as an example of the possibilities available in the developing field of "hybrid" digital music services offering both social networking and music delivery functionality.

Finally, this article will examine the service publicly known as Spotify. Spotify gained a massive user base and artist catalogue during its formative years in Europe.[12] In the summer of 2011, Spotify made its way over to the United States as an invite only offering. It currently remains an invite only service (or rather an invite via a valid Facebook account) with a public availability offered for a monthly service charge—not unlike the current business model of video rental service Netflix.[13] Interestingly, Spotify is also working with the social networking juggernaut Facebook to create a service that combines music delivery with advanced social networking functionality.[14] For Spotify, the question then becomes, what sort of revenue does this generate for artists or content owners? Likewise, is this a sustainable business model for the future of the music industry?

Each of these three digital services is cause for debate within not only the majors in the music industry, but also among independent artists looking for new avenues to reach listeners. The examples examined herein provide unique case studies on how intellectual property law interacts with digital service possibilities.

Collectively, they give us a general picture of the opportunities and potential for growth within the music industry. However, while they are all very different, every service examined shows how creative individuals struggle to maintain their innovative business models. The goal of this article is both to highlight the problems and hurdles faced by new content delivery methods and also to highlight new services looking for interesting or innovative alternatives given the current music industry legal landscape.

II. Attempting a Brief Analysis of the Current Copyright Landscape

The Basics

The United States Copyright Act provides protection for a variety of intellectual properties. It aims to foster creativity, protect authors and provide revenue for these unique artists in an effort to stimulate continued expression.[15] Copyright protects film, sculpture, architecture, dance choreography and musical works.[16] Protection via the Copyright Act adheres to an author's creative expression immediately upon fixation of the work in a tangible medium of expression.[17] "Tangible medium of expression" is loosely defined and would include even digitally stored files—although it excludes what are referred to as "cached" copies.[18]

Once an author creates a unique expression in one of the mediums enumerated under the Copyright Act, the law then grants the individual (or a company in a work for hire scenario) a monopoly on a number of rights that adhere to that particular creative expression. These rights include: (1) the right to reproduce the work, (2) the right to create derivatives of the work, (3) the right to distribute the work, (4) the right to perform the work publicly, (5) the right to display the work publicly and (6) the right to digitally perform the work.[19]

In the case of musical works, there are two distinct properties associated with a single song or track.[20] The first intellectual property is the underlying musical composition. These are the actual notes and lyrics that comprise a song. The second intellectual property is the actual master sound recording. These are the notes and music as played by a specific musician or band.[21] Each of these two intellectual properties is unique. Each property has its own specific set of rights and regulations. As such, there are two different entities managing the properties: One is often referred to as the "recorded music division" (or master rights holder), and the other is the "publishing side," or publisher.[22]

The value of authorship for an artist lies almost entirely (although not completely) in the artist's monopoly over the enumerated copyrights.[23] An artist or copyright owner can license each of these rights exclusively to one individual, non-exclusively to a number of individuals, or in any number of other possible combinations.[24] This is how movies are made, albums are created, songs are "covered," and how we as a society absorb the creative works of individuals and groups. Specifically relevant for the case studies herein are the different performance rights implicated in each of the two musical intellectual property pieces. These performance rights are so different that each of the two musical copyrights often requires the licensing of an entirely different bundle of rights.

Only the underlying musical composition has a public performance copyright.[25] Artists often set up independent publishing companies with the exclusive goal of exploiting the individual's song "catalogue." Performance Rights Organizations (PROs) like ASCAP and BMI act as intermediaries between the compositions' rights holders and third parties, such as bars with jukeboxes, radio and other potential public performance licensees.[26] ASCAP and BMI then license these works on behalf of the authors or rights owners, take their own percentages of the revenue received, and disburse the remainder back to the artist / author.[27] Oftentimes ASCAP and BMI offer large package licenses to jukebox companies or bars. These bundled licenses let the establishments "publicly perform" the entire ASCAP or BMI catalogue for one recurring fee.[28]

Third party artists may want to "cover" another artist's musical composition. To obtain the required license, the artist pays a fee and plays his or her rendition of another's musical work (in this scenario, no master license is required). As an example, if David Bowie wants to record his version of The Beatles track "Help!," he may do so, as long as he acquires a license for that particular underlying musical composition. Conveniently, the Copyright Act provides a statutorily set rate for licensing the underlying musical composition, often referred to as the mechanical rate. Currently, this rate is set at 9.1 cents or 1.75 cents per minute of playing time or fraction thereof, whichever is greater.[29] This figure changes about every two years to reflect the current market and inflation. Furthermore, this mechanical license is compulsory, meaning that the owner of the underlying musical composition must grant a license to potential licensee.[30] The Harry Fox Agency, Inc. issues these particular mechanical licenses on behalf of most U.S. music publishers.[31]

Unlike the underlying musical composition, the master sound recording does not have a public performance right.[32] Consequently, artists do not see revenue from the public performance of the actual sound recording embodied on a record. Included within this potential revenue stream are radio, jukeboxes and similar performances of the musical work.[33] The omission of this right from the master sound recording stems from radio broadcaster efforts to lobby the legislature and avoid paying additional fees when they played music on their radio programs.[34]

Attempting an Update

In a failed attempt at updating the Copyright Act to reflect the changing technology and media marketplace, the legislature in 1995 enacted the Digital Performance Right in Sound Recordings Act (DPRSRA). The DPRSRA added the digital public performance right to the master sound recordings. In doing so, the legislature created an additional revenue stream from digital broadcast licensing.[35] Now, unlike with the general public performance right, both the master sound recording and the underlying musical composition saw revenue from licensing the digital public performance right. This newly created right was reinforced in 1998 when Congress enacted the DMCA.[36]

The digital public performance right is unfortunately not without its own severely multifarious licensing complications. There are two possible licenses for the digital public performance right. Digital transmissions that fall under the statutory definition of "non-interactive" may utilize the simplified compulsory licensing structure built into the current Copyright Act for the digital public performance right.[37]

A collection of music executives and artists comprise the board at an organization known as SoundExchange. SoundExchange sets the statutory rate for the non-interactive license. SoundExchange does not issue these licenses, but acts as an intermediary for the transaction.[38] These licenses are easily acquired. Due to a set statutory rate, the licensing process is streamlined and does not require individual negotiations with rights holders and the potential for elevated fees.

Conversely, digital transmission services that meet the statutory definition of "interactive" are required to undergo individual licensing negotiations with the owner of the copyright in the master sound recording.[39] Depending on the musical work at issue, these licensing fees can be as large or as little as the market allows. For example if one is trying to license the entire Beatles catalogue for digital transmission on an interactive digital music service, one's fees might very well thwart the business entirely.

The next obvious question for individuals and entrepreneurs trying to create functional and legally compliant digital music services becomes: what constitutes an interactive service? This question is not easily answered, and many legal papers focus exclusively on this issue alone.[40] However, below is a brief attempt at explaining the statutory definition. For obvious reasons, many services attempt to come as close to "interactive" as possible while still staying within the bounds of a technically "non-interactive" site to avoid the increased transactions costs of licensing musical works.

Initially, the DPRSRA stated that an interactive digital transmission outside of the compulsory license for the digital performance right in the master sound recording was one that: "Enables a member of the public to receive, on request, a transmission of a particular sound recording chosen by or on behalf of the recipient."[41] This broad definition was only the beginning of what would become a complicated analysis of what constitutes "interactive" in this context.

Three years later, the DMCA took the aforementioned definition further and stated that "interactive" meant:

> An interactive service is one that enables the member of the public to receive a transmission of a program specially created for the recipient, or on request, a transmission of a particular sound recording, whether or not as part of a program which is selected by or on behalf of the recipient.[42]

While not that different from the prior DPRSRA definition, both pieces of statutory guidance highlight the legislature's focus on user selection and track predictability. Specifically, predictability is really the fulcrum in defining a digital transmission as whether interactive or non-interactive.

The Sound Recording Performance Complement

Complicating matters even further, Congress, in the DPRSRA, created the Sound Recording Performance Complement (the Complement) as a strict guideline for defining a service as interactive or non-interactive.[43] This was a very important guideline. Many rights owners—particularly the major labels—very directly utilize the Complement when examining new digital transmission websites to decide whether a SoundExchange license is warranted or if the rights owner should pursue a possible claim for owed royalties based on digital interactivity. The Complement is likely the single most important analytical tool used to determine whether a service is interactive or non-interactive.

Prominent copyright scholar David Nimmer states that the Complement "is geared to prevent subscription services from effectively diminishing sales of pre-recorded music by virtue of the statutory license."[44] Furthermore, Nimmer continues to posit that the Complement "…can prevent more exotic schemes that would obviate sales—such as an audio channel devoted exclusively to one group of recording artists, such that listeners would no longer feel the need to buy their albums."[45] Some current digital music services may well in fact classify as David Nimmer's "exotic schemes."

The Complement sets forth the following requirements: within a three hour period the service shall transmit no more than (1) three songs from one album or compact disc, if no more than two of these are played in a row; or (2) four songs by the same featured artist or from the same box set, if no more than three of these are played in a row.[46] Stated simply, the Complement limits the performance to no more than three songs from one album, but no more than two songs back to back.[47]

Publishing Playlists and Predetermined Programs

Additionally, to fit within the non-interactive definition of a digital transmission service, the service must also not "cause to be published" or "induce or facilitate the publication of," by means of an advance program schedule, "the titles of the sound recordings to be transmitted, the phonorecords embodying such sound recordings, or, other than for illustrative purposes, the names of the featured recording artists."[48]

With the playlist publication prohibition, Congress still tried to allow digital audio transmission services the leeway to provide "the names of several featured recording artists to illustrate the type of music being performed on a particular channel."[49] In fact, an additional requirement under the DPRSRA demands that the service provide this information to the user or lose statutory licensing altogether.[50] Again, David Nimmer accurately discussed the bar on publishing playlists. He stated, "in brief, the statutory license is forfeit if it is possible to identify programs in advance with too much specificity."[51]

As one can easily gather, both the Complement and the playlist publication requirements focus on user predictability when selecting a particular track or song for digital transmission. The web radio service Pandora provides a clear example of how a digital transmission service can walk a fine line between interactive and non-interactive while still complying with the statute to utilize the compulsory license. Pandora allows a user to request a specific song or genre; the user may then skip songs he or she dislikes. However, the user will ultimately run out of "skips," forcing him or her to comply with the Complement. The overall functionality of the site completely removes the possibility that the user can circumvent the Complement or playlist requirements. Pandora furthermore remains compliant in publishing the artist name, album name and track titles as required under the Copyright Act.

Arista Records, LLC v. Launch Media, Inc.

To date, only one case in the Second Circuit has addressed the various complexities inherent in the interactive / non-interactive digital music service distinction.[52] In *Arista Records, LLC v. Launch Media, Inc.* the Second Circuit held that the LAUNCHcast service fell within the scope of "non-interactive" and could therefore utilize the statutory licensing of the digital public performance right. The service in *Launch* allowed users to create customized playlists but was overall not predictable enough that "users [would] choose to listen to the webcast in lieu of purchasing the music."[53]

Addressing the Complement, the *Launch* court stated that the service—based on its own complex series of algorithms and selection methods—prevented the user from hearing more than two songs in the same album or three songs by the same artist consecutively.[54] Furthermore, the service had coding in place that prevented the advance publication of a playlist or audio program schedule.[55] Thus, the LAUNCHcast service remained well within the bounds of "non-interactive."

Unfortunately, although worth mentioning, the *Launch* case provides little in the way of guidance. When it comes to newer services, many have already developed significantly more complex content delivery methods. Contemporary services provide fact patterns with functionality so vague and multifaceted that it is nearly impossible to use a case like *Launch* to accurately predict the outcome for a new digital service.

Part III will use the aforementioned copyright discussion to examine three real world case examples—Muziic, Turntable.fm and Spotify. These three services present a less than clear analysis, as their business models attempt to creatively deliver content to users and remain interactive, while still circumventing the Complement (or not) entirely. Some of these services have the potential for widespread success, whereas others are already showing signs of financial failure.

III. Three Real-World Examples

Muziic and the YouTube API

Creative entrepreneurs who experiment with new methods of content delivery use technology as a means of circumventing the restrictions presented by the United States Copyright Act. Muziic and its founders fit this profile exactly. In 2009 David Nelson, a teenager, and his father Mark, launched Muziic from their home in Iowa. The father and son duo initially released the Muziic software as a Windows-based application.[56] Then David released a web-based application, along with an application for the iPad, iPhone and other mobile media devices.[57]

How does this unique software work? While Muziic advertises that users stream music from a number of different sites or applications, the true heart of the Muziic offering lies within the YouTube API.[58] As a brief explanation, the YouTube API grants third party applications, or web based programs, access to the YouTube database. A user then searches for videos via a third party site. The YouTube videos will embed or populate a particular field of the application or website as it retrieves specific queries.[59] Using this basic knowledge, one can examine the functionality of the Muziic web-based application and its exploitation of the YouTube API.

A user on Muziic accesses the service's main website. The user may search for nearly any musical artist without having to register. For example, if a user searches the Muziic website for the 1960s garage rock band The Troggs, a results page appears with a list of tracks found on YouTube matching the request. Each "result" features a title along with a plus icon. The plus icon allows the user to add a particular track to a playlist field found directly on the Muziic website. After the user populates the playlist field with all of the tracks he or she would like to hear, he or she then clicks on the play icon and begins a customized playlist. Selecting "play" for a particular playlist causes a small embed player to present each track added to the playlist in order and in full. When the track is over, the next video / song in the playlist populates the embed field, and so on down the list. This may sound complicated, but logistically and in practice, it is very simple.[60] Notably, aside from some light advertisement, Muziic currently sees little to no profit from the service. As of this writing, it does not offer a paid subscription service.

The actual "video" itself plays a very small role in this overall functionality. YouTube remains a website predominantly for users who post personal videos or their own original creative content. However, over time, a secondary "market" appeared. Frequently, YouTube users upload copyrighted sound recordings to YouTube and publicly offer the tracks in their entirety often set to a simple title screen listing the songs' information.[61] These infringing basic sound recording "videos" serve as the bedrock for Muziic and its functionality. The small exceptions are popular artists that have music videos to accompany their tracks and offer these videos on YouTube via a license negotiated with the applicable major record labels.

Aside from the infringing "fake" music videos, the questions remain: why is this a problem, and if it is a problem, how does Muziic get away with it? Additionally, what sort of claim would a copyright owner have against a site like Muziic? Muziic is unique, but the service is certainly not alone. Many other websites are exploiting the YouTube API as a function of current caselaw and as a means of circumventing the complex licensing system.[62]

Those responsible for a number of the videos found on YouTube, specifically those videos playing musical works in their entirety without a license to do so, could face a claim of copyright infringement. However, as the current and controversial caselaw dictates, it is the responsibility of the copyright owners to patrol content aggregators like YouTube for infringing videos. It is the content owner's responsibility to issue takedown notices pursuant to the DMCA,[63] as YouTube can seek shelter under the Safe Harbor provision and thus only the actual user uploading the infringing content remains liable.[64] Furthermore, Muziic can avoid a claim of copyright infringement based on the current caselaw requiring Muziic to store the content on its servers—which it does not do.[65]

Exacerbating this problem, many of the major records labels and content owners negotiated exclusive deals with YouTube to share in any revenue generated each time a particular artist's video or track plays on the website.[66] For example, each time the official Katy Perry music video for her track "Firework" plays on YouTube, EMI (or now Universal) sees revenue for that "click" and the advertisement played before the video commences.

A number of questions arise when a third party like Muziic enters into the licensing equation. Services like Muziic circumvent the licensing revenue streams, seriously devaluing the agreements between content owners and YouTube / Google. The following is a short list of some of the main questions and / or concerns surrounding services like Muziic:

> (1) Despite a third party accessing YouTube videos via the YouTube API, do content owners still see revenue from each play or click of the official content owner video?
>
> (2) Where does embed functionality fit into question (1), and does it always circumvent revenue for the content owner?
>
> (3) Do content owners still see revenue from plays of videos that are potentially

infringing or otherwise unauthorized music videos?

(4) How can YouTube possibly correct these functionality issues, if at all?

These are difficult questions with complicated answers not readily available. Furthermore, in some instances the technological implications or inquiries are extremely complicated.

Another basic issue with Muziic rests in the licensing discussion at the start of this article. Arguably, Muziic delivers musical content without license to do so. Certainly, if Muziic did have master sound recording licenses for the digital public performance right under the Copyright Act, the service would without question classify as interactive.

Specifically, a Muziic user literally predicts every song he or she will hear. The only tracks played via the Muziic interface are those found on the published playlist personally created by the user. Furthermore, a user could hypothetically create a playlist, wherein every single song on the list appears on one particular artist's album. The user might play the list in order and continuously. It is unquestionable that both of these functionalities directly violate the Complement, along with the restriction on published playlists and advanced schedules.

What is the result here? Most important, what are copyright owners to do in the face of this ambiguity? Services like Muziic creatively exploit the YouTube API and embed code feature. To this end, Muziic seems to operate within a loophole that is liability free and inherent in the technology available. Likewise, most content owners (or rather their legal representatives) are educated enough to know that there is likely no valid claim for infringement.

Instead, copyright owners might discuss a potential claim that appears to be tied to a third party beneficiary harm. This hypothetical claim would pertain to Muziic's alleged interference with agreements between content owners and YouTube / Google. Such a claim is only one possibility and most likely meritless.[67] If anything, this shows the extent to which content owners should feel disempowered by technological advances and creative entrepreneurs who may (at least for now) have found ways to circumvent the licensing requirements under the Copyright Act.

This article begins with an analysis of Muziic exactly because of the uncertain nature of this particular type of YouTube API-based technology. Muziic highlights the creativity and complexity involved as services attempt to exploit content delivery. Muziic claims to be "100% free and legal," but its future remains uncertain, as content owners remain "at the gates" and ready for any potential legal action against the service.[68] Furthermore, YouTube, based on pressure from content owners, may have to take action on its own to prevent this sort of API exploitation rather than risk losing agreements with valuable partners. Muziic stands as an example of the complexities and the uncertainty present when services fully exploit technology in unforeseen ways. Services like Muziic, however, may simply be too ahead of their time to make a lasting impact while simultaneously avoiding legal obstacles.

Turntable.fm and Its Controversial Yet Innovative Functionality

Aside from Spotify, Turntable.fm is the single most publicized and "talked about" digital music service in recent memory.[69] Turntable.fm runs on functionality backed by the music aggregator MediaNet.[70] Turntable.fm serves as a perfect example of the possibilities inherent in new music delivery technology, social networking, and how the synergy of these two concepts can result in a unique and shared musical experience.

Turntable.fm is currently an invite-only service (meaning that one already using the service must invite another to open an account) with over 400,000 monthly users and well over $7.5 million dollars in investment liquidity.[71] Upon release, the service opened to massive coverage by blogs, the major news media and artists interested in the possibilities contained within this unique offering.[72] It generated immediate attention.

Turntable.fm redefines how users, friends and strangers share or communally listen to music on the Internet. At its most basic, Turntable.fm is a website where users log in to the service's interface, open a free account and select an avatar / username. The user then creates a private or public "DJ room" or joins another user's public or private DJ room. These rooms, graphically speaking, feature a common "dance floor"-like area and a DJ countertop with five digitally created "turntables."

Users either take a spot at an unoccupied digital turntable or remain passive on the digital dance floor area. Those who take a spot at the "DJ table" then pre-select songs, which are either uploaded individually or from the MediaNet database.[73] Once at least one track is in a user's playlist, the website cycles through each "DJ" and the top track on each user's particular list commences. As an example, "DJ A" plays David Bowie's track "Fame," then "DJ B" plays a Troggs song. If there are only two DJs at the "table," the website cycles back to "DJ A" and the next song on his or her playlist.

The variety of different user experiences available via the Turntable.fm functionality is what makes the service so unique but also complicates the digital licensing analysis. The difficulty with a service like Turntable.fm is specifically in its hybrid functionality. A "DJ user" experiences a different Turntable.fm when compared with a user that simply enters a room and passively listens to the selections made by third party DJs.[74] On the one hand, a "DJ user" selects the songs he or she would like to hear, via a published playlist and without a restriction as to what artists, which albums and in what sequence the tracks are played. A "passive listener user" conversely does not see any published playlist, has no idea what he or she is going to hear and cannot select what songs are played.[75] A passive listener user may only "like" or "unlike" particular songs.[76] If there are enough users that "unlike" a song, the song is skipped and the next DJ's track begins. In any event, Turntable.fm is digitally transmitting tracks and therein digitally publicly performing these musical works. What sort of licensing, then, is required for Turntable.fm from the owners of the master sound recording copyright? The answer is potentially both interactive and non-interactive licenses.

Currently, via its involvement with MediaNet, Turntable.fm utilizes the statutory license available for non-interactive services through transactions with SoundExchange.[77] Additionally, Turntable.fm announced a deal with ASCAP, allegedly bringing it into full compliance with the current licensing requirements under the Copyright Act, for at least one type of functionality.[78] However, another aspect of Turntable.fm's functionality requires that the service obtains an interactive and individually negotiated license for at least some of the digital public performances,[79] as DJ users often play all of the songs in a particular album, in order, repeatedly.

This functionality directly violates the Complement. Much like in the Muziic example, a DJ user has a complete playlist of all upcoming tracks, prior to their playback. Track predictability is the keystone to the DJ user experience. In offering this content delivery method, Turntable.fm violates the publishing playlist requirement for a non-interactive license.

However, it would appear as if Turntable.fm is more than willing and in fact has already taken the necessary steps to comply with the Copyright Act and obtain the proper licensing required to operate its service.[80] Even still, for Turntable.fm, the future remains uncertain. Despite the high costs associated with the interactive license (discussed in more detail below) required to operate the service's key DJ user functionality, Turntable.fm relies on virtually "no traditional advertising."[81] The question for the future is thus, how can Turntable.fm continue to afford its attractive and unique functionality and therein pay all required licensing fees? The answer to that inquiry remains to be seen.

Turntable.fm is a service with limitless potential, particularly in the marketing and promotional context. For example, during the first six months of Turntable.fm's initial release, two members of the garage rock band The Black Lips decided to try their hand at setting up a public room. The two band members created a room, named it "The Black Lips" and posted a link on their Facebook page. Fans entered the Turntable.fm room and could then listen, interact (via the embedded chat room) and enjoy the music the band members had selected. Users asked the band questions about their music and their upcoming album. The virtual DJ room had close to 1,000 passive users listening.

This new form of social networking fan / band member interaction seemed like a limitless, creative way to promote a new album, an upcoming concert tour or to just interact with a fan base. Imagine the possibilities of a pop star the likes of Lady Gaga hosting a Turntable.fm session for a select group of fans or pre-sale ticket holders. The revenue and marketing value is unimaginable.

Unlike Muziic, Turntable.fm serves as an example of current possibilities, given the technology available. Our collective culture has examined the concept of social networking to an almost comical extreme. We can exchange, download and absorb musical content any way we please and as fast as we would like. Now, we are seeing where these two pieces of game-changing technology interact and how music functions as a form of social interaction, whether that involves sharing with friends, family or strangers. Turntable.fm is a clear example of how this is all possible and yet it may fail because of licensing requirements, the licensing fees or modified functionality to avoid the license problem altogether. Turntable.fm uncovers the current Copyright Act's inherent ability to restrain the music industry and the promise found in creative new "hybrid" services.

Spotify, or Complying with the Licensing Requirements

"The hot new music service from Europe" might as well be Spotify's slogan.[82] No other service has garnered more widespread media attention. Turntable.fm pales in comparison to Spotify. The music industry, fans and some critics place great hope on this relatively small service and the potential it has to become the next "cloud based" iTunes.

Started in Sweden in 2006, Spotify is now incorporated in the U.K. but maintains its home office in Stockholm.[83] It had its beginnings as a European invite-only service, allowing users to upload and / or search for music held on its remote servers. Thus, users could access their music anywhere via what is loosely defined as "cloud" technology. After the service's initial success and a rapid increase in user base, the service altered its invite-only "free" offering, known as "Spotify Open" or "Spotify Free."[84] Spotify placed restrictions on these free accounts, and prevented users from playing a particular song more than five times and instituted an overall limit of 10 hours of streaming a month. Users could upgrade to a pay subscription called "Spotify Unlimited" or "Spotify Premium" and avoid these restrictions entirely.[85]

Much of Spotify's early attention came from a *Wired* report stating that Spotify generated more revenue for record labels than any other service on or off the Internet.[86] Even still, as of April 2011, Spotify remained a Europe-only music service. It quickly gained attention from music content owners, record labels, artists and interested parties in the United States. In June 2011, Spotify announced that it obtained $100 million from investors to make a push and enter the U.S.[87] Finally, in July 2011, Spotify entered the U.S. market as an invite-only service. Spotify now offers users in the United States a monthly subscription starting at a cost of five dollars a month or a more limited free service.[88]

As to Spotify's basic functionality, it is a streaming digital music service. In total, Spotify currently offers 15 million pre-available songs.[89] The service also lets users upload songs to their individual Spotify libraries. Users may also create and share customized playlists via the service's desktop application. The playlist functionality remains one of Spotify's more popular functionalities. Spotify is also available as a downloadable mobile application for use on smartphones.[90] The service allows third party functionality for use on different websites and a variety of applications. Most notably, Spotify fully integrates Facebook compatibility.[91] These social networking capabilities attract users hoping to share their musical tastes with friends. It also shows the trend discussed in the previous Turntable.fm analysis—users and the digital content marketplace expect music services to offer full social networking functionality.

In an effort to prevent piracy, Spotify utilizes Digital Rights Management (DRM) technology to bar unauthorized use of available content. Obviously, Spotify generates revenue from its subscription fees and via advertisements found on all of its digital interface offerings.[92] Based on Spotify's own reporting, in November of 2011 the service had approximately 2.5 million paid subscribers across Europe.[93]

Much of Spotify's initial delay in entering the United States stemmed from prolonged negotiations with the major record labels as to workable licensing agreements.[94] As Spotify users have so much direct control over the content they listen to, the playlists they create and the songs they share with friends, Spotify was forced to obtain individually negotiated interactive digital performance licenses with master sound recording copyright owners.[95] Users build and share their customized playlists. There are no restrictions on song or track order and users (with a paid account) may replay songs infinitely, all in violation of both the Complement and the published playlist restriction. The interactive licensing that Spotify eventually obtained is exactly what delayed the service's United States release.[96]

Spotify sounds like a nearly perfect company, matching the demands of consumers, users and content owners, while also remaining fully compliant with the current Copyright Act and paying all of the appropriate licensing fees. Generally speaking, however, there are problems:

(1) The service generates shockingly low revenue figures for artists, musicians and content owners.

(2) Spotify is massively in debt.

In terms of a legal analysis on these problems, there is not much to discuss, as Spotify negotiated the proper licensing required to operate its service. This legal compliance, however, is the predominant factor in what might be Spotify's inevitable downfall.

An example can most effectively highlight this problem. It is rumored that the pop superstar Lady Gaga received $167 from a total of more than 1 million plays via the Spotify service.[97] Obviously, that is a shockingly low number, but why? A representative from another digital music service roughly estimates that Spotify has a $0.04-per-album payment figure. Assuming there are roughly 10 tracks per album (a fair average) each song has on average a $0.004 per play rate. "That's a rough business to be in."[98]

Additionally, the aforementioned rates are merely funds generated per play and do not encompass any individually negotiated recording agreements an artist may have with his or her individual record label.[99] As advances are contractual, the artist may see absolutely none of this digital revenue. Clearly, even if they do see some revenue from each track play—the numbers may be insignificant. This revenue problem stems from the overall nature of the current digital music marketplace.

With so many new services, and each trying to become the dominant form of music delivery, companies are engaging in a "race to the bottom," attempting to offer the lowest subscription fees and therein attract additional customers.[100] Unfortunately, lower subscription fees mean less revenue for copyright owners and artists alike. The problem is obvious; as revenue crawls in the door at these digital music services, money floods out to pay licensing fees and maintain functionality.[101]

Simply stated, according to financial reports, Spotify was in debt $42 million.[102] These same financial reports list the largest expenditure as "cost of sales," totaling nearly $64 million.[103] "Costs of sales" encompass all of the many individually negotiated licenses the Copyright Act requires Spotify to obtain from content owners to operate its service.[104] Without these licenses, Spotify would otherwise be subject to claims for copyright infringement. It is clear that Spotify's choice to remain compliant with the Copyright Act comes with a massive price tag to both artists and the service.

It is not all bad news for Spotify, however. It is important not to forget that Spotify is still a startup, and it is not uncommon for services like this to have a seemingly large amount of debt. A recent *Business Insider* article lists these promising aspects of the Spotify business model:

(1) The product quality and deep social integration make it vital, which brings in the free users;

(2) As it gains scale, Spotify will gain negotiating leverage with content partners, which should allow it to keep the marginal costs for each subscriber low;

(3) Spotify draws in users and gets them to pay a subscription fee once they are hooked;

(4) Because subscription revenue is recurring and more users are converting to paid over time, at some point the business should be sustainably profitable.[105]

Spotify is a relatively small service but it has immense potential for growth. As the *Business Insider* article notes, Spotify offers its users (at least initially) a product that has "more convenience than either piracy or iTunes."[106] Spotify has to maintain its user base and attract paying subscribers while also paying or rather affording the complex interactive licensing costs. Only time will tell whether Spotify can accomplish this goal. Regardless, it serves an example of what happens when a service remains compliant with the various licensing requirements and at least attempts to legitimately enter the market offering a unique product to hungry consumers.

What Do These Three Examples Tell Us?

This article examined the legal landscape that controls the digital music playing field, using three very different real world examples of digital music services started by creative entrepreneurs hoping to offer users something original and innovative. However, each example led to the inevitable conclusion that this all might be impossible due to seemingly overwhelming legal obstacles. Specifically, these examples highlight the complications involved in trying to comply with the licensing restrictions inherent in the digital public performance right in the master sound recording.

Yet, each of the three services perfectly exemplifies three unique problems and / or possible solutions to the copyright complications. Muziic found a loophole so large in YouTube's API functionality that content owners must literally be trying to come up with novel claims in the hopes of recapturing at least some of their lost revenue. Turntable.fm stands for the possibilities available when technology, social networking, music and user interaction merge into a service so promising and creative that it is almost bound to fail. Should Turntable.fm modify the service's functionality to avoid interactive licensing fees, it will undoubtedly lose the very features that make it unique. Conversely, it's decision to comply with the licensing requirements implicated in this same functionality brings forth high fees for a service lacking revenue from native advertisements. More specifically, Spotify serves as an example of a digital service that elects to comply with the Copyright Act. In doing so, it faces interactive licensing fees that at first glance appear to not only rob the artist of any potential revenue but also effectively sentence the service to financial struggle, absent a continuous increase in gross revenue.

In the end, one can still remain hopeful. The pervasive sense of failure that plagued the music industry for the last 30 years has to stop for the industry to move forward. Commentators regularly proclaim: "The music industry is dead." It is certainly hard to disagree with that assessment, but it is better to reframe the thinking. A particular iteration of the music industry is dead. Just because the previous version of the major record label model is no longer functional does not mean that the music industry and the major record label cannot and will not take on an even more creative, inspiring and revenue generating form.

Muziic, Turntable.fm and Spotify serve as concrete evidence that there are still creative entrepreneurs looking to deliver content to the consumer in new and interesting ways. However, without a change to the complex licensing structure found in the digital public performance right, the music industry (in whatever form) can never move forward. Music and passionate individuals willing to purchase music will never disappear. If anything, these three examples lead to the singular conclusion that despite the complexities found in the Copyright Act, new services will always try to offer the consumer something innovative.

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42. 17 U.S.C. §114(j)(7) (1998).

43. 17 U.S.C. §114(d)(2)(C)(i) (1995).

44. David Nimmer, *Ignoring the Public: Part I: On The Absurd Complexity of the Digital Audio Transmission Right*, 7 UCLA ENT. L. REV. 189, 191 (2000).

45. *Id.* at n.195.

46. 17 U.S.C. 114(j)(7) (1995), recodified as 17 U.S.C. 114(j)(13).

47. *Id.*

48. 17 U.S.C. §114(d)(2)(C)(ii) (1995).

49. *Id.* at 231.

50. 17 U.S.C. § 114(d)(2)(C)(ix) (1995).

51. *Id.*

52. *Arista Records, LLC v. Launch Media, Inc.* 578 F.3d 148 (2d. Cir. 2010).

53. *Id.* at 162.

54. *Id.* at 160.

55. *Id.* at 164.

56. Greg Sandoval, *Teen Muziic Founder: Shawn Fanning Is My Hero*, CNET (March 13, 2009), http://news.cnet.com/8301-1023_3-10194416-93.html.

57. *See* Wauter, *supra* note 7.

58. *Id.*

59. *Id.*

60. So simple in fact that when I introduced the service to a number of peers, all without any knowledge of the current Copyright Act, they commented on how facially "illegal" the service seemed.

61. Viacom Int'l, Inc. v. YouTube, Inc., 2010 U.S. Dist. LEXIS 62829 (S.D.N.Y. 2010). Although extremely controversial, this case centered on infringing videos available via YouTube, and particularly who shoulders the burden of patrolling YouTube for copyrighted material. The court eventually held that it is the copyright owner who must monitor sites like YouTube and issue DMCA takedown notices when possible. YouTube remains free of liability under the Safe Harbor provision of the DMCA, so long as it complies with the DMCA's requirements.

62. *See generally id.*

63. *Id.*

64. *Id.*

65. *See* Perfect 10 v. Google, Inc., et al., 416 F. Supp. 2d 828 (C.D. Cal. 2006).

66. Stefanie Olsen, *YouTube, EMI Sign Breakthrough Licensing Pact*, CNET (May 31, 2007), http://news.cnet.com/YouTube,-EMI-sign-breakthrough-licensing-pact/2100-1030_3-6187759.html.

67. I researched a roughly stated "third party beneficiary" claim. Unfortunately, there are some serious causation issues involved in a comparable fact pattern and it would be difficult for content owners to formulate a claim that would not seem frivolous.

68. *See* Wauter, *supra* note 7.

69. Terry Hart, *Is Turntable.fm Legal?*, COPYHYPE (August 1, 2011), http://www.copyhype.com/?p=303.

70. *See* Kafka, *supra* note 10.

71. *See* Hart, *supra* note 69. Among these recent investors are celebrities like Lady Gaga and Kanye West. Alyson Shontell, *Lady Gaga and Kanye West Investing in Turnable.fm*, BUSINESS INSIDER (Aug. 2, 2011), http://www.businessinsider.com/kanye-west-and-lady-gaga-have-invested-in-turntablefm-2011-7.

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80. Andrew Hemp, *Turntable.FM Signs Licensing Deals With All Four Major Labels—It's Official*, Billboard.biz (Mar. 13, 2012), http://www.billboard.biz/bbbiz/industry/digital-and-mobile/exclusive-turntable-fm-signs-licensing-deals-1006443952.story.

81. *Id.*

82. *See* Gobry, *supra* note 12.

83. Spotify, *Hello America. Spotify here* (July 14, 2011), http://www.spotify.com/us/about-us/press/hello-america-spotify-here/.

84. Spotify, *Hallo Nederland* (May 18, 2010), http://www.spotify.com/uk/blog/archives/2010/05/18/.

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89. Dan Check, *Spotify vs. Girl Talk: What is Spotify's Music Catalog Missing?*, Slate (July 22, 2011), http://www.slate.com/blogs/browbeat/2011/07/22/spotify_vs_girl_talk_what_is_spotify_s_music_catalog_missing_.html.

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92. Austin Carr, *Spotify, Rhapsody, Rdio: When Will Subscription Music Pay Off For Artists?*, Fast Company.com (Oct. 11, 2011), http://www.fastcompany.com/1786444/spotify-rhapsody-rdio-when-will-subscription-music-pay-off-for-artists.

93. Glenn Peoples, *Spotify Reaches 2.5 Million Subscribers Worldwide*, Billboard.biz (Nov. 23, 2011), http://www.billboard.biz/bbbiz/industry/digital-and-mobile/spotify-reaches-2-5-million-subscribers-1005560362.story.

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97. *See* Carr, *supra* note 92. This unbelievably low figure is apparently accurate. Lady Gaga is not the only artist seeing unexpectedly low revenue from Spotify. *See also*, Damon Krukowski, *Making Sense*, Pitchfork Media (Nov. 14, 2012), http://pitchfork.com/features/articles/8993-the-cloud/.

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99. *Id.*

100. *See* Gobry, *supra* note 12.

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102. *Id.*

103. *Id.*

104. *Id.*

105. *Id.*

106. *Id.*

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Krell's Korner

Krell's Korner is a column about the people, events, and deals that shape the entertainment, arts, and sports industries.

I'll Be Seeing You: Jackie Onassis, Ron Galella, and the Birth of the Modern Paparazzi

By David Krell

The Compass of the Eye

Decades before TMZ, there was Ron Galella.

Galella was a photographer who redefined relentlessness in his pursuit of Jacqueline Bouvier Kennedy Onassis during the 1970s. He became a legend, despised by the public revering Jackie, and admired by his shutterbug competitors for commitment to his craft.

The shot that secured his legend status captured a moment of Jackie's graceful gait on Madison Avenue. Her windswept hair, slender body in mid-stride, and smile indicating shyness made for a portrait that crowned Galella's otherwise extensive portfolio. He described the photograph as his Mona Lisa.

Yet Galella's exploits in capturing Onassis through his camera lens became headlines as the former First Lady squared off against him in a courtroom. The case tested the limits of the First Amendment.

Ron Galella's walk of destiny that led him to photograph one of the most famous women in the world began during his high school years in the Bronx after World War II. A portrait of the photographer as a young man begins with his rise each morning in the Galella homestead at 1310 Oakley Street to attend high school where he trained to be an artist. Visions of swashbuckling heroes from literature raced through his creative thoughts, and Galella often drew his heroes—D'Artagnan of *The Three Musketeers* and Cyrano de Bergerac.

With the Korean War forcing a draft of the nation's young men, Galella enlisted in the Air Force rather than be subject to the draft. The enlistment proved to be the turning point for this son of a cabinet-maker who valued exactitude in his work and a woman who cherished fashion and art. "We had three choices for a vocation. Body Fender. Camera Repair. Photography. Painting and sculpture had their day. Photography is the closest thing to art and a photographer can do what a painter can't—capture a spontaneous moment. I was lucky to get the photography slot."[1]

The novice photographer who admittedly lacked paternal discipline found an artistic outlet and the structure he did not know he needed. In turn, he maximized the outlet's benefits, albeit in geographical regions unfamiliar to a person surrounded by the energetic aura of a major city.

> We were handy because of my father's tools. We picked it up by osmosis. He was a good provider but he didn't discipline me, my sister, or my three brothers. The Air Force gave me the discipline that my family life did not. First, I was based at Sampson Air Force Hall in the Finger Lakes region of upstate New York. A 5:00 a.m. march to the mess hall was cold! Then, I was assigned to Denver. It has natural, artistic benefits in addition to fresh air, like Colorado Springs, Pike's Peak, and other godly sculptures.
>
> When I got discharged in 1955, I had a choice—ceramics, which I had practiced for about a year after high school, or photography. I chose the latter and went to Art Center College. I graduated with four years of course work in only three years. Essentially, I wanted to be creative and an opportunist.[2]

An opportunist he was. Undoubtedly.

Galella expanded his photography education beyond the dark room by studying the great photographers and master artists. When Galella was stationed in Orlando during his Air Force tenure, a decade before Walt Disney pieced together the plans for Disney World, he went to art school because the Air Force paid for art classes. He bought his first professional camera from a sergeant for $150—a Rollflex. The sergeant also sold Galella a set of encyclopedias for $30. It opened up an educational vista.

"The other guys played cards. Gambling is a waste." said Galella. "I read about the great photographers because I wanted to be one. What distinguishes me from my competitors is that I am more educated in art. To be a great photographer, you have to study compositions along with painting, color, and lighting. You can learn compositions from great art. Photographers often miss these opportunities. So, I give them advice, even though they are competitors. I was inspired by the great artists of the Renaissance, like da Vinci and Michelangelo."[3]

In the artistic galaxy, working on commercial photography assignments is light years away from painting the Mona Lisa or sculpting a statue of David. That was where Galella found himself after graduating from Art Center College in 1958 and returning to New York City as a recession smacked the country harder than a Joe Louis knockout punch.

> I managed to work in freelance photography. I did jobs for the Dellwood Milk Company and an interior design magazine. I was an assistant, so I also did some studio photography. Eventually, I photographed celebrities. Typically, I shot celebrities at night because I wanted to develop the film for a contact sheet in the morning. Then, you pitch the magazine editors. In those days, there were not as many markets for the photos as today. Of course, if the celebrity you target does not go out that particular night, you might not have a photo to sell in the morning.[4]

Galella's entrepreneurial spirit piggy-backed on his artistic dedication. From 1967 to 1970, he set up a Santa Claus photo concession at a Bronx outlet for the now-defunct Great Eastern supermarket chain. He had 1400 customers and made approximately $8,000 a week.

Taking standard photos and portraits provides steady, if not lucrative, income. Yet Galella had a deeper desire to recreate celebrities' beauty on photographs.

In 1967, Galella got his first tangible taste of Jackie Onassis' allure as a photographic subject. He sold a photograph of the former First Lady to *Newsweek*. "It encouraged me to do more." says Galella.

"Encouraged" is an understatement. Galella refused to be sated, stopped, or sidelined in his quest to encapsulate a sliver of a Jackie Onassis moment. There was only one force that had a chance.

The American legal system.

Galella v. Onassis, Part 1

Galella launched the first shot, filing a lawsuit against Onassis and three of her Secret Service agents for $1.3 dollars in the fall of 1970. Galella claimed that he suffered false arrest and malicious prosecution in addition to "interference with his business by the alleged acts of defendant Onassis in resisting his efforts to photograph her, and by the alleged acts of defendant Agents in obstructing these efforts at the contended behest and inducement of defendant Onassis."[5]

Onassis counterclaimed on March 8, 1971. She sought $1.5 million in compensatory and punitive damages in addition to an injunction against Galella. She claimed that Galella violated "her common law, statutory and constitutional rights of privacy and [committed] intentional infliction of emotional distress, assault, harassment and malicious prosecution."[6]

The United States Government moved to intervene on July 6, 1971. The United States District Court granted the motion. On October 20, 1971, the Government filed a complaint arguing that Galella's actions equaled "interference with the protective duties of the United States Secret Service toward the minor children of defendant Onassis and her late husband, John F. Kennedy, a former President of the United States."[7]

The court granted summary judgment for Galella's claim "on the ground that no triable issue of fact existed as to whether the Agents were acting within the scope of their employment as Government agents and so were immune from suit as a matter of law."[8] Onassis did not enjoy similar success, though. The court denied her motions for summary judgment on her complaint and counterclaim.[9]

On October 8, 1971, the court signed a Temporary Restraining Order against Galella for actions occurring earlier in the month. "The application was based largely upon the tennis incident of October 4, 1971 and the residence episode of October 5, 1971…alleging continued harassment, surveillance and fear."[10]

The court set boundaries for Galella two months later.

> On December 2, 1971 the firm of Paul, Weiss, Rifkind, Wharton & Garrison, substituted as counsel for defendant, brought on an order to show cause, coupled with a temporary restraining order, to punish the plaintiff for contempt of the October 8, 1971 order. This order based upon the alleged surveillance of defendant and her children, was signed on December 2, 1971 and provided in essence that plaintiff and his agents cease surveillance and following, remain at least 100 yards from the home and 50 yards from the person of Mrs. Onassis and her children (200 yards and 100 yards respectively were requested), and that plaintiff be enjoined from communicating or attempting to communicate with them.[11]

A judge heard the case. Neither side filed a jury demand before the deadline, though Galella made an attempt well after. "On January 25, 1972, over nine (9) months late, plaintiff filed a jury demand. By law we had no alternative but to strike it as worthless."[12]

Alfred Julien, Galella's attorney, also claimed judicial bias. Julien told Judge Irving Ben Cooper, who was assigned to the case, that "he was contemplating an application to have another judge preside at trial on the ground that having been nominated by President Kennedy, we could not render an unbiased judgment."[13]

Julien never filed the appropriate legal papers to seek the judge's removal from the case. "Plaintiff deliberately waived any claim of bias. It ill-behooved Mr. Julien to go around the back way to accomplish what he failed to attempt directly. Nevertheless, several times throughout the trial, he screamed 'mistrial, you are biased' at the judge presiding."[14]

From February 16th to March 23, 1972, the trial took place while President Nixon visited China, the Environmental Protection Agency called for unleaded gasoline at all gas stations, and race relations found humor as Sammy Davis, Jr. gave Archie Bunker a kiss on the cheek.

Galella's behavior before the court's restraining orders fell under consideration. For example, Galella spied on Onassis at a private dinner party in a Manhattan restaurant in February 1969. "Plaintiff testified he had learned of her presence and secreted himself behind a coat rack in the restaurant. He had arranged with restaurant personnel to turn up the music loud enough to deaden the sound of his clicking camera. While stationed at that spot he took at least five or six dozen photographs."[15]

The aforementioned tennis incident took place at the Central Park tennis courts when Caroline Kennedy had a tennis lesson while her mother watched. Onassis testified about Galella's effect on Caroline, then just a few weeks shy of turning 14. "Agent Walsh said to Galella, 'Can't you see you're making her nervous?' Galella then yelled to Caroline, 'I'm not making you nervous, am I, honey?' And she said, 'Yes, you are.' She turned towards me and there were tears in her eyes."[16]

After that comment, Galella's pursuit was no longer hidden, but obvious. "He rushed up the stairs of the tennis house. He was leaping around inside and he knocked over a trash can. He bumped into Caroline, bumping her against the wall. He caused a great commotion and we were upset."[17] Galella admitted to knocking over the trash can, but claimed that it was an accident and not from "violent bumping about."[18]

The previously mentioned residence incident took place on November 28, 1971. After Onassis arrived home from a "brief holiday" with her two children at night, Galella hid around the corner of her apartment building while two photographer cohorts hid in a nearby van. "As defendant and her children were getting out of the car, plaintiff lunged from under the canopy and discharged his flash as the children were alighting. John Kennedy was startled, he fell to his knees, his books scattered in the street. As defendant and her children were walking to the entrance, plaintiff and the other two photographers continued rushing back and forth in front of Mrs. Onassis while taking flash photographs from both the north and south sides of the canopy."[19]

Galella's pursuit continued a few days later as Onassis went to dinner and a theatrical performance of *Two Gentlemen of Verona.* Among his actions that night, Galella documented Onassis when the play stopped for patrons to get a drink, go to the bathroom, or get a breath of fresh air outside the theatre. "During intermission, plaintiff again came down the aisle pushing people out of his way in order to reach and photograph defendant. As the Onassis party proceeded up the aisle, plaintiff photographed them. This plaintiff admitted. He pressed so close to Mrs. [Peter] Duchin and [Michael] Forrestal as to come within eighteen inches of Mrs. Onassis. In the lobby they were surrounded by him and his associates. Galella leapt from side to side and knocked people about."[20]

The court considered several other incidents involving Galella. Where Galella advocates claimed exuberance, the court saw harassment. It considered Galella's First Amendment claims by discussing the potential of prior restraint for photojournalists. "Any injunction which would absolutely or effectively prevent plaintiff from photographing Mrs. Onassis or her children would raise a problem of prior restraint."[21]

Thus, the court analyzed the reach of Galella's First Amendment rights. As the First Amendment is not a blanket absolution for any actions involving the media, the court reasoned that Galella's actions trumped First Amendment rights.

> Galella asserts that the First Amendment is a complete defense to the counterclaim and intervenor complaint. We reject this contention; it is unsupported by legal authority.
>
> The proposition that the First Amendment gives the press wide liberty to engage in any sort of conduct, no matter how offensive, in gathering news has been flatly rejected.[22]

The court relied on *Tribune Review Publishing Co. v. Thomas* in its analysis of Galella's actions. The *Tribune* court upheld a denial of an injunction barring photographers from certain courthouse areas. "We think that this question of getting at what one wants to know, either to inform the public or to satisfy one's individual curiosity is a far cry from the type of freedom of expression, comment, criticism so fully protected by the first and fourteenth amendments to the Constitution."[23]

Additionally, the court relied on *Dietemann v. Time, Inc.* for its reasoning that publication may enhance damages. "A rule forbidding the use of publication as an ingredient of damages would deny to the injured plaintiff recovery for real harm done to him without any countervailing benefit to the legitimate interest of the public in being informed. The same rule would encourage conduct by news media that grossly offends ordinary men."[24]

Galella's argument on First Amendment grounds failed. "We conclude that the First Amendment does not license Galella to trespass inside private buildings, such as the children's schools, lobbies of friends' apartment buildings and restaurants. Nor does that Amendment command that Galella be permitted to romance maids, bribe employees and maintain surveillance in order to monitor defendant's leaving, entering and living inside her own home."[25]

Onassis' position as a "public figure"—perhaps the personification of that phrase—mattered not for a First Amendment analysis by Judge Cooper: "In any event, we said at trial, and now repeat, that she is a public figure. Nevertheless, the First Amendment does not immunize all conduct designed to gather information about or photographs of a public figure. There is no general constitutional right to assault, harass, or unceasingly shadow or distress public figures."[26]

While First Amendment advocates may shiver at the notion of a court deciding what is newsworthy under a public figure paradigm, the court in *Galella* acknowledged the tension. "It might be argued that the Court should not place itself in the position of drawing lines and of weighing the value of various communications so as to deny to some of them, under certain circumstances, the protection of the First Amendment. But that is what courts are for. They have not shrunk in the past from deciding whether a given individual was a 'public figure.'"[27]

Regarding the emotional distress argument, the court validated Onassis' version of events. "We find that the totality of plaintiff's conduct was extreme, intentional and outrageous, and that the emotional distress experienced by defendant and her children was severe and reasonably so. The record demonstrates there is substantial basis for their reactions and concerns; they were indeed harassed, threatened and denied privacy by plaintiff's offensive conduct. The proof establishes the tortious infliction of mental distress."[28]

Onassis also won the legal argument concerning Galella's claim of her interference with his photography profession. Galella, according to the court, suffered no damages by Onassis dodging, avoiding, or otherwise escaping Galella's vantage point. "If, while walking on the street, Mrs. Onassis chose to shield herself from plaintiff by putting on sun glasses or a veil, plaintiff suffered no actionable wrong. If instead, she walked behind somebody or asked another to stand in front of her, plaintiff has no right of action even though what she purposely did may have 'interfered' with his photographing her. A photographer cannot direct an unwilling subject to pose, to wear only clothing which he dictates, or to perform according to his requirements any more than one without a camera could do so."[29]

Further, the court found that Galella violated its temporary restraining order during the events of November 28, 1971 and December 1, 1971.[30] It set boundary restrictions for Galella and anyone working with him to:

- 100 yards of Onassis' home
- 100 yards of the schools attended by John and Caroline Kennedy
- 75 yards from the children at all other places and times
- 50 yards from Onassis at all other places and times[31]

Additionally, the court enjoined Galella from conducting surveillance on Onassis or the Kennedy children, using Onassis' photograph for commercial purposes—advertising or trade—without Onassis' consent, and communicating with or attempting to communicate with Onassis or her children.[32]

Galella vs. Onassis, Part 2

Galella appealed to the United States Court of Appeals in the Second Circuit. Circuit Judge J. Joseph Smith wrote the court's opinion.

First, the court upheld the District Court's summary judgment grant and dismissal of Galella's claim concerning the Secret Service agents.[33]

> If an officer is acting within his role as a government officer his conduct is at least within the outer perimeter of his authority. The Secret Service agents were charged under 18 U.S.C. § 3056 with "guarding against and preventing any activity by any individual which could create a risk to the safety and well being of the…children or result in their physical injury." It was undisputed that the agents were on duty at the time, and there was evidence that they believed John Kennedy to be endangered by Galella's actions. Unquestionably the agents were acting within the scope of their authority.[34]

Intrusion, a key factor in the balancing between First Amendment rights and privacy rights, fell under the appellate court's scrutiny. While Galella enjoyed First Amendment protection, he failed again to convince a judge that the protection extended to his methods despite Onassis' celebrity.

> Of course legitimate countervailing social needs may warrant some intrusion despite an individual's reasonable expectation of privacy and freedom from harassment. However the interference allowed may be no greater than that necessary to protect the overriding public interest. Mrs. Onassis was properly found to be a public figure and thus subject to news coverage. Nonetheless, Galella's action went far beyond the reasonable bounds of news gathering. When weighed against the *de minimis* public importance of the daily activities of the defendant, Galella's constant surveillance, his obtrusive and intruding presence, was unwarranted and unreasonable. If there were any doubt in our minds, Galella's inexcusable conduct toward defendant's minor children would resolve it.[35]

Further, regarding the tortious conduct claims of Onassis, the Court of Appeals clarified Galella's argument, or lack thereof.

Galella does not seriously dispute the court's finding of tortious conduct. Rather, he sets up the First Amendment as a wall of immunity protecting newsmen from any liability for their conduct while gathering news. There is no such scope to the First Amendment right. Crimes and torts committed in news gathering are not protected.[36]

The court also upheld Judge Cooper's decision to hear the case at the District Court rather than offer recusal. Galella's argument failed because of the statutory requirements attached to judicial recusal upon request.

> A judge may be disqualified for bias only on motion supported by a written affidavit of facts supporting the claim of bias and a certificate of good faith from the counsel of record. 28 U.S.C. § 144. Galella failed to comply with the statute; no showing was made of a legal basis for the claim, no motion was made nor affidavit filed. Informal requests to the court, or failure to comply with the stature because of an expectation of denial, however well founded, cannot be substituted for compliance with § 144.[37]

Despite the Court of Appeals upholding the District Court's legal analysis, it modified the injunctive mandate of distances between Galella and Onassis. Indeed, the modification lessened the distance that Galella need to keep. "[W]e modify the court's order to prohibit only (1) any approach within twenty-five (25) feet of defendant or any touching of the person of the defendant Jacqueline Onassis; (2) any blocking of her movement in public places and thoroughfares; (3) any act foreseeably or reasonably calculated to place the life and safety of defendant in jeopardy; and (4) any conduct which would reasonably be foreseen to harass, alarm or frighten the defendant."[38]

The court did, however, uphold the injunctive relief concerning the Secret Service protection of Onassis' children "modified to prohibit any action interfering with Secret Service agents' protective duties. Galella thus may be enjoined from (a) entering the children's schools or play areas; (b) engaging in action calculated or reasonably foreseen to place the children's safety or well being in jeopardy, which would threaten or create physical injury; (c) taking any action which could reasonably be foreseen to harass, alarm, or frighten the children; and (d) from approaching within thirty (30) feet of the children."[39]

Onassis requested a rehearing *en banc*—a rehearing before all judges of a court rather than the judges assigned to the case previously litigated. The Court of Appeals denied the request.

It also remanded to the District Court for "modification of the judgment."[40]

Galella vs. Onassis, Part 3

On January 8, 1975, the District Court entered a judgment permanently enjoining certain actions of Galella:

- approaching Onassis within 25 feet;
- touching Onassis;
- blocking Onassis' movement in public places or thoroughfares;
- performing any act that is foreseeably or reasonably calculated to put Onassis's life or safety in jeopardy;
- engaging in conduct reasonably foreseen to harass, alarm or frighten Onassis;
- entering a school or play area of the Kennedy children;
- engaging in conduct calculated or reasonably to be foreseen as putting the safety or well-being of either of the Kennedy children in jeopardy, or engaging in conduct which would frighten either of the Kennedy children or cause injury to either of them;
- taking action which could reasonably be foreseen to harass, alarm or frighten either of the Kennedy children;
- approaching either of the Kennedy children within 30 feet; and

- interfering with the protective duties of the United States Secret Service regarding the protection of John F. Kennedy, Jr. [41]

Onassis sought redress in the United States District Court in the early 1980s, which again fell under the aegis of Judge Cooper, claiming that Galella violated the 25-feet boundary in four incidents occurring in 1981.

The first incident took place at the Hollywood Twin Theatre on Eighth Avenue near 47th Street in midtown Manhattan. Onassis went to the theatre for an afternoon showing of the film *Death in Venice*. Thanks to a tip from the theatre manager to the *New York Post* Galella discovered Onassis' attendance in the theatre.[42]

Galella's presence, therefore, was neither accidental nor cosmic. It was, indeed, purposeful. He wanted a valuable vantage point to capture Jackie's egress.

> This is not a situation where a coincidental meeting occurred. Rather, Galella intentionally went to this theatre; his jumping and leaping, combined with his "making those scary grunting noises… very rapid low noise like an animal," produced the only foreseeable conclusion. His arrogant persistency, compounded by each step he took, only added to the harassment, alarm and fear clearly instilled in his subject well before the incident was over.[43]

The second incident took place at Menemsha Pond in Martha's Vineyard. When Onassis went on her boat with a friend, Galella followed in another boat with a driver.

> Galella's contention that he only sought newsworthy photographs purposely misconstrues the fundamental purpose of our order. We did not preclude Galella from pursuing this photographic subject; we limited the distance and manner in which he may proceed to do so. We did our utmost to strike a balance between the rights of Galella and Mrs. Onassis.[44]

The third incident took place at Moshup Trail in Martha's Vineyard. This incident concerned Caroline Kennedy riding her bicycle on the trail. Based on the testimony of Ms. Kennedy and Galella, the court found the former's to be credible. "Galella forced Ms. Kennedy over to the side of the road onto a sandy section where a bicyclist could easily fall; he blocked her path in the lane in which she was traveling; he caused her to swerve into a lane of on-coming traffic. We find he fully intended by his conduct to accomplish the results which ensued."[45]

Those results were photographs of America's most famous daughter. Injury, physical or otherwise, was never a goal of Galella's.

The fourth incident took place at the Winter Garden Theatre, located at Broadway and 51st Street in Manhattan where Onassis attended a performance of *The Catherine Wheel* with friends. Galella's testimony about his proximity to Onassis undercut his credibility with the court. It lacked specificity. "What is particularly striking about Galella's testimony on this episode is his marked, studied failure to even mention or refer to the distances between himself and Mrs. Onassis at various times—as though that vital factual issue was of no consequence."[46]

Judge Cooper ruled that Galella violated the restraining order in all four incidents, his presence breaking the mandated 25-feet boundary. He took notice of the court's power, a highly significant cog in the judicial machine. "It is unthinkable that the court is without absolute power to enforce compliance with its orders. The court is duty bound to defend its integrity against those who defy its authority."[47]

In March 1982, the respective law firms of Onassis and Galella signed a Consent Order and Judgment for the United States District Court, Southern District of New York. The Consent Order forced Galella to pay $10,000 to Onassis and her daughter, Caroline Kennedy. In addition, it mandated that Galella give them "all negatives, transparencies and photographic prints which he or others acting with him have taken or made of Jacqueline Onassis, Caroline Kennedy and John F. Kennedy, Jr. in violation of the January 8, 1975 order, only those which were the subject of this contempt proceeding."[48]

Moments Are Fleeting…Photographs Are Forever

Ron Galella obtained fame as the first American paparazzi because of his relentless pursuit of Jacqueline Bouvier Kennedy Onassis.

Rather than temper stories about his pursuit of Onassis, Galella revels in it. He is working on his latest book, *Jackie: My Obsession*, which will consist of approximately 400 photographs, some never before seen. The cover, of course, is Galella's famous mid-stride shot of Onassis.

For those who rooted for Galella to leave Onassis alone, they kept images in their mind's eye of a First Lady turned international icon that redefined grace, glamour, and elegance. Odds are that the images were born from Galella's photographs.

Endnotes

1. Interview with Ron Galella (October 25, 2011).
2. *Id.*
3. *Id.*
4. *Id.*
5. Galella v. Onassis, 353 F.Supp. 196, 199 (S.D.N.Y. 1972).
6. *Id.*

7. *Id*.
8. *Id*. at 199-200.
9. *Id*. at 200.
10. *Id*.
11. *Id*. at 201.
12. *Id*. at 202.
13. *Id*. at 203.
14. *Id*.
15. *Id*. at 207.
16. *Id*. at 209-210.
17. *Id*. at 209.
18. *Id*., n.25.
19. *Id*. at 211.
20. *Id* at 211-212. Michael Forrestal was Onassis' escort for the evening. Mr. and Mrs. Peter Duchin were guests of Forrestal and Onassis.
21. *Id*. at 220.
22. *Id*.
23. *Id*. quoting Tribune Review Publishing Co. v. Thomas, 254 F.2d 883, 885 (3d Cir. 1958).
24. *Id*. at 222 quoting Dietemann v. Time, Inc., 284 F.Supp. 925 (C.D. Cal. 1968), *aff'd*, 449 F.2d 245, 250 (9th Cir. 1971).
25. *Id*. at 222.
26. *Id*. at 223.
27. *Id*. at 225.
28. *Id*. at 231.
29. *Id*. at 234.
30. *Id*. at 238.
31. *Id*. at 241.
32. *Id*.
33. *Galella v. Onassis*, 487 F.2d 986, 993.
34. *Id*.
35. *Id*. at 995.
36. *Id*.
37. *Id*. at 997.
38. *Id*. at 998.
39. *Id*. at 999.
40. *Id*.
41. *Galella*, 533 F.Supp at 1083, quoting Order, United States District Court, January 8, 1975. A contact at the newspaper alerted Galella.
42. *Id*. at 1086.
43. *Id*. at 1089.
44. *Id*. at 1092.
45. *Id*. at 1096.
46. *Id*. at 1102.
47. *Id*. at 1105.
48. Consent Order and Judgment, 70 Civ. 4348 (S.D.N.Y. 1982).

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