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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

Inside

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Remarks from the Chair

Thank you, EASL! After 25 years, you are still as vibrant and welcoming as ever, and you know how to celebrate with style.

On May 6th, EASL formally celebrated its 25 years as a Section with a day-to-evening event to remember. During the day, members gathered at The Warwick Hotel for some engaging CLE, a fabulous luncheon, and collegiality at its best. The evening was reserved for cocktails, dinner and entertainment in the company of colleagues, friends, spouses, and the like.

The day started with an "Introduction to Art Law," presented by EASL Past Chair Judith Bresler, and Assistant Secretary Carol Steinberg. Judith led us through a challenging hypothetical involving a wealthy, art-collecting client, his acquisition of an expensive painting via auction, an aggressive auctioneer, and a challenge to the authenticity of the work. The audience was intrigued as Judith invited members to use their lawyering skills to predict the outcome. The audience complied and the exchange among colleagues was lively (and fun!), with Judith summing up and presenting the result. Carol Steinberg followed with an absorbing discussion on what might be considered transformative (and fair use) in appropriation art, using *Cariou v. Prince, et al*. as an example.[1] Both segments were dynamic, enlightening and enjoyable.

During the luncheon that followed, we acknowledged our appreciation to all of the Past Chairs of EASL, each of whom has made his or her mark on the Section's evolution and success, building on what had come before and innovating along the way. Past Chairs in attendance were Alan Barson, Tim DeBaets, Judith Bresler, and Marc Jacobson, the last of whom was our Founding Chair. As a surprise, we presented Marc with a gift and commended his early vision of EASL—that of fostering dialogue among entertainment attorneys in an atmosphere of inclusion and purpose. It was quite touching when all those in the room stood and applauded him in heartfelt appreciation; it was a great moment for EASL.

The program continued with our featured luncheon speaker, Jeff Gewirtz, Executive Vice President of Business Affairs and Chief Legal Officer of the Brooklyn Nets and the Barclays Center. Interviewed by our own Jessica Thaler, Jeff gave us a peek inside professional sports, live-event arenas, and the myriad of disciplines one has to be familiar with to keep all the balls in the air, so to speak. Jeff's eloquence and humor, and the animated exchanges between him and Jessica, were thoroughly enjoyed by all.

After lunch, we all learned how to be ethical online under the tutelage of our own Pery Krinsky, and panelists

Douglas Wood (Reed Smith, LLP) and Michael Graif (Curtis, Mallet-Prevost, Colt & Mosle LLP). Thanks to their talents, this ethics panel was no sleeper. Full of valuable advice, real-life situations and examples of attorney advertising that bordered on the offensive, we learned what not to do and, more importantly, what we can do in the cloud, on Facebook, or LinkedIn, or Twitter, or our own blogs, and what is permissible in promoting our services.

Once we had our own ethics in check, Kathryn Ferrara (Unilever and New York Law School's Institute for Information Law and Policy) brought us up to speed on how to assist our clients in advertising and promoting their brands through social media. We learned that it is a slippery slope for the online endorser and the brand if the testimonial contains false or unsubstantiated claims—a true challenge for legal counsel when the online dialogue occurs in real-time, 24/7.

While many of us were still grasping the legal complexity of online affairs, Jason W. Gordon (Winston & Strawn LLP) introduced us to Big Data and illustrated how our every move in cyberspace is being tracked, collected, dissected, categorized, and organized, and how that data is churned out and scooped up by advertisers to better target ads relevant to their mark (us), better known as Online Behavioral Advertising. Tracking transparency and consumer choice (to be or not to be tracked) continue to be hotly debated issues, and time will tell whether sufficient consumer privacy protections will be developed by the Online Behavioral Advertising industry or imposed by government regulation.

As the day folded into evening, our members strolled down to Broadway's Night Club, 54 Below, for cocktails, dinner, camaraderie, and the delightfully funny and engaging performance of songstress and comedienne Jackie Hoffman. A perfect ending to a wonderful day.

Sincere thanks and appreciation go to all who shaped the events of the day and evening, particularly our 25th Anniversary Committee Co-Chairs, Jason Aylesworth, Marc Jacobson, Pamela Jones, and Megan Maxwell, and committee members Anne Atkinson, Jason Baruch, Ethan Bordman, Judith Bresler, Elissa Hecker, Ezgi Kaya, Diane Krausz, Judith Prowda, Steve Rodner, Barry Skidelsky, Carol Steinberg, Irina Tarsis, Jessica Thaler, Mary Ann Zimmer,

Shannon Zhu, and our NYSBA liaison, photographer, and chief of all things EASL, Beth Gould. Special thanks to all of the Past Chairs of EASL, Marc Jacobson, Eric R. Roper, Howard Siegel, Philip M. Cowan, John R. Kettle III, Samuel L. Pinkus, Timothy J. DeBaets, Judith A. Bresler, Jeffrey R. Rosenthal, Elissa D. Hecker, Alan D. Barson, Kenneth N. Swezey, and Judith B. Prowda, for keeping our Section focused, forward-thinking, and fun.

As the main event for our 25th Anniversary lingers in our memory, we continue to celebrate EASL with the debut of our Section's latest publication, *In the Arena: A Sports Law Handbook,* edited by EASL Past Chair Elissa D. Hecker and David Krell, and a slate of interesting programs for the fall season, including "Sports and Arena Financing" in September, "The Entertainment Business Law Seminar" at the CMJ Music Marathon on October 18th, and our 25th Anniversary Finale event on November 14th which will be an afternoon CLE followed by a cocktail reception.

In the meantime, enjoy your summer, and *thank you,* EASL, for being the common thread that brings us together and keeps us in good company.

Rosemarie Tully

Endnote

1. See p. 17 for more information about this case.

Editor's Note

Now is the perfect opportunity to grab a copy of EASL's latest book, *In the Arena: A Sports Law Handbook*, for your summer reading pleasure. As the world of professional athletics has become more competitive and the issues more complex, so has the need for more reliable representation in the field of sports law. Written by dozens of the top sports law attorneys, and edited by David Krell and myself, *In the Arena: A Sports Law Handbook* is a reflection of the multiple issues that face athletes and the attorneys who represent them. Whether the reader is a novice to the sports industry or a seasoned veteran, he or she will find this book to be a valuable resource.

NYSBA members receive a discounted rate of $60, and non-members may purchase the book for $75. Visit www.nysba.org/inthearena to order yours.

Chapter topics 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
- Dozens of useful appendices

Grab your copy now!

Have a wonderful summer.

Elissa

***Editor's Correction**: All references to Ken Davenport in the EASL Annual Meeting Transcript on pages 89 and 91 and the first two references to him on page 94 of the Spring 2013 issue should have been to Jason Aylesworth. The online PDF version is correct.*

The next *EASL Journal* deadline is Friday, August 30, 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 Chair of the Board of Directors for Dance/NYC (http://dancenyc.org/). She 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 the books *Entertainment Litigation*, *Counseling Content Providers in the Digital Age*, and *In the Arena*, a frequent author, lecturer and panelist, and a member of the Board of Editors for the NYSBA Bar *Journal*. Elissa is 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. She is a Super Lawyers Rising Star, the recipient of the CSUSA's inaugural Excellent Service Award, and recipient of the New York State Bar Association's 2005 Outstanding Young Lawyer Award. Elissa can be reached at (914) 478-0457, via email at eheckeresq@eheckeresq.com or through her website at http://eheckeresq.com/.

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

Law Student Initiative Writing Contest

Congratulations to the LSI winners:

Timothy J. Geverd, of George Mason University School of Law, for his article entitled:
"Failure to Warn: The National Hockey League Could Pay the Price for Its Pursuit of Profit at the Expense of Player Safety"

and

Craig Tepper, of Benjamin N. Cardozo School of Law, for his article entitled:
"A Model for Success: Why New York Should Change the Classification of Child Models Under New York Labor Laws"

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, August 30, 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 10 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.

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

Pro Bono Legal Clinic

On July 31st, the EASL and IP Sections co-sponsored a successful Pro Bono Clinic at the New York Foundation for the Arts (NYFA). The Clinic took place between 4:00 and 7:00 p.m. at NYFA's offices in at 20 Jay Street, Brooklyn, with over 30 volunteers.

Speakers Bureau Members Participate in NYFA's Legal Day for Chinese Arts Professionals

The Speakers Bureau presented an exciting day of legal issues (as they affect artists in the United States) for Chinese arts professionals who were in the U.S. in July, pursuant to a NYFA-sponsored program, to learn about the arts and arts administration practices in this country. We were pleased that NYFA requested that EASL's Speakers Bureau plan the day and provide attorneys to speak about tax incentives and structures that benefit the arts, contracts, and IP issues. Carol Steinberg planned and coordinated the day in collaboration with Peter Cobb of NYFA.

By way of background, NYFA signed a Memorandum of Understanding (MOU) with the China Federation of Literary and Arts Circles (CFLAC), which includes, among others, the China Theatre Association, China Film Association, China Musicians Association, China Artists Association, China Quyi Artists Association, China Dancers Association, China Photographers Association, China Calligraphers Association, China Acrobats Association, China TV Artists Association, and the China Folk Literature and Art Association. The purpose of the MOU is to facilitate artist exchanges and promote information sharing between the two countries, as well as to conduct training for arts administrators to better serve the needs of artists in a large, market-driven economy.

NYFA hosted a high-level delegation of Chinese arts leaders for three weeks. This 22 member delegation was comprised of representatives from CFLAC, as well as several representatives from the Chinese government. The delegation represented the first such "training" exchange. During the delegation's stay, NYFA conducted intensive workshops to discuss arts administration practices in the United States. It focused on areas such as fundraising (including structures and tax incentives that help organizations access private funds), social media and marketing strategies that connect organizations with audiences, strategic planning, program designs that respond to the needs of both individual artists and communities, and legal issues.

A significant component of the delegation's visit consisted of introducing them to important arts and cultural institutions throughout New York City and Washington, D.C. NYFA representatives thought that it would be invaluable for these leaders to meet with their U.S. counterparts, not just to learn about how successful arts institutions function in the U.S., but to begin a dialogue between arts leaders in the two countries that will create awareness of how both countries' arts communities survive and thrive. Its hope is that lasting connections will be made during these visits.

A cadre of high level EASL attorneys spoke on EASL's legal day, which was broken down into three segments: The first involved 501(c)(3)s as a system that incentivizes private giving to the arts. Lesley Rosenthal and Robert Freedman covered these issues. The second and third panels covered various scenarios in which a Chinese artist in one of the disciplines represented in the delegation would need to contract with a U.S. based artist or organization. Examples include a Chinese playwright who wants to put his or her work into a U.S.-theatre, or a Chinese musician wants to schedule a tour or sell a CD, or a visual artist who wants to show his or her work in a U.S. gallery. Tim DeBaets, Pamela Jones, Diane Krausz, Marc Jacobson, and Jason Aylesworth participated in these panels. All three panels were moderated by Innes Smolansky.

* * *

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 walk-in 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.

Registering Multiple Musical Works in a Single Copyright Registration

By Marc Jacobson and Marc Pellegrino

A Reply to: Does Registering Multiple Works in a Single Application Limit Remedies for Copyright Infringement? (*EASL Journal* (Fall/Winter 2012) (Vol. 23, No. 3))

Introduction

The article entitled "Does Registering Multiple Works in a Single Application Limit Remedies for Copyright Infringement," appearing in the Fall/Winter 2012 *EASL Journal*, written by Steve Gordon, Esq., suggests that "if a single application for more than one work is properly completed, visual artists, writers, composers, recording artists and other creators can retain all the legal remedies afforded by the Copyright Act while saving money by avoiding multiple registration fees."[1]

We believe this analysis may not be accurate, particularly as it relates to musical copyrights. We also believe that this subject was not fully analyzed in Steve's article, and is in fact very complicated. Central to our concern is Gordon's anecdote about his role as a music attorney, where he registers his client's albums—consisting of a group of individual sound recordings and musical compositions—with the Copyright Office in a single, streamlined, electronically filed, $35 application. Doing so saves time and money and, according to Gordon, "protects each song and the recording of each song."[2] We believe such protection may exist, but comes not simply from compliance with the registration requirements, but depends on how the works in question are "issued" to the consuming public. Traditional registration of each track and each song may still provide the best possible protection for sound recordings and musical compositions.

Gordon's Assertions

Gordon opens the article with a brief discussion on the advantages of registering one's work in a timely fashion with the Copyright Office, namely gaining the right to "secure statutory damages," per 17 U.S.C. § 504(c) of the Copyright Act. He then outlines the basic rules for registering multiple works in a single application, based on the Code of Federal Regulation Title 37, part 202.3(b)(4), which, for the purpose of registration on a single application and upon payment of a single registration fee, considers a single "work" as:

> (A) In the case of published works: all copyrightable elements that are otherwise recognizable as self-contained works, that are included in a single unit of publication, and in which the copyright claimant is the same; and
>
> (B) In the case of unpublished works: all copyrightable elements that are otherwise recognizable as self-contained works, and are combined in a single unpublished "collection." For these purposes, a combination of such elements shall be considered a "collection" if:
>
>> (1) The elements are assembled in an orderly form;
>>
>> (2) The combined elements bear a single title identifying the collection as a whole;
>>
>> (3) The copyright claimant in all of the elements, and in the collection as a whole, is the same; and
>>
>> (4) All of the elements are by the same author, or, if they are by different authors, at least one of the authors has contributed copyrightable authorship to each element.
>>
>>> (ii) Registration of an unpublished "collection" extends to each copyrightable element in the collection and to the authorship, if any, involved in selecting and assembling the collection.

Gordon then mentions his role as music attorney, and how he registers a group of songs in a single application, pursuant to CFR § 202.3. By complying with the registration process, he asserts that his clients may still recover a full statutory damage award for each individual song or "work" infringed, and are not limited to a single statutory damage award for infringement of the album. This assertion concerns us most, and is the catalyst to this response.

The rest of Gordon's article focuses on the special rules that apply to periodicals and photographers, the limits on registering multiple works in a single application and how all the published works must have been first published together as a single unit of publication. None of those provisions, nor the case law upon which Gordon relies, explicitly mentions whether single registration of multiple "works," in the complex area of music, affects the claimant's right to an individual award of statutory damages per infringement therein.

The simplest way to consider the issue we are addressing is to assume:

a. A copyright claimant registered an entire 10 song album on a single registration,

b. two of the songs were infringed by a third party and released on a compilation album, and

c. the claimant seeks to recover the maximum amount of statutory damages available for the infringement of two songs.

A Need for Clarification

Gordon is correct about the benefit of registering and the advantage of the subsequent right to statutory damages and attorneys' fees, if the registration is timely, but his advice on how to avoid the prospect of losing such rights per song may be misleading and is incomplete. We assert that the analysis, in determining whether statutory damages should be awarded on a per-song or a per-album basis, is based on how the album was "issued," and not solely on how it was registered.

a. Statutory Guidance

According to 17 U.S.C. § 504(c) of the Copyright Act, a plaintiff is entitled to an award of statutory damages for any "work" infringed," which can reach as high as $150,000 per *work*.[3] It also states that "all the parts of a compilation…constitute one *work*"[4] and defines a "compilation" as "a *work* formed by the collection and assembling of preexisting materials…that are selected, coordinated, or arranged in such a way that the resulting work as a whole constitutes an original work of authorship."[5] The term "compilation" also includes "collective *works*," which are defined as "*work[s]*…in which a number of contributions, constituting separate and independent *works* in themselves, are assembled into a collective *whole*."[6]

So, when Gordon registers his client's album in a single registration, such an album would fall squarely within the Act's definition of a compilation: a single "work" per the language of section 504(c). One can infer from this language, as well as the following case law, that the copyright holder of a registered album may thus theoretically only recover a single statutory award per "album" or "work" infringed. In other words, the infringement of the two works in our hypothetical only results in one award of statutory damages.

b. Case Law

While Gordon may be correct when he says that a single registration of multiple songs does not *preclude* someone from obtaining statutory damages per song within an album—evading such a risk is not a matter of proper adherence to the registration process, as Gordon states. Instead, one must ask if the copyright holder has commercially "issued," or made for sale, each song, *individually*, or *collectively*—i.e., as part of the album as a whole. The 2010 Second Circuit decision in *Bryant v. Media Rights Productions, Inc.*[7] as well as the Southern District of New York's 2011 decision in *Arista Records LLC v. LimeGroup LLC*[8] echoes Gordon's concern, but highlights Gordon's incomplete advice.

In 2010, the Second Circuit in *Bryant* held that, because the copyright holders chose to issue their sound recordings *only* as albums, rather than as individual tracks, the "plain language of the Copyright Act limit[ed] the copyright holders' statutory damages award to one for each album."[9] The plaintiffs in *Bryant* created, produced, and copyrighted two albums and brought suit after finding unauthorized digital copies of their albums online. The Court focused on whether the copyright holder "issued its works separately, or together as a unit."[10] *Bryant* distinguished its facts from earlier decisions, which held that, where plaintiff copyright holders had also issued their copyrighted works as separate individual episodes[11] or sound recordings,[12] they were entitled to statutory damages per individual work. The plaintiffs in *Bryant*, by contrast, issued their sound recordings in album form only, and thus the "work" offered by them was the entire compilation—i.e., the album—not the individual sound recordings contained therein.

In 2011, the Southern District of New York, in *Arista Records v. LimeGroup*, refined this idea, concluding that '[n]othing in the Copyright Act bars a plaintiff from recovering a statutory damage award for a sound recording issued as an individual track, simply because that plaintiff, at some point in time, also included that sound recording as part of an album or other compilation."[13] The court went on to say that "although the Copyright Act states that 'all parts of a compilation...constitute one work,' it does not say that any work included in a compilation cannot also exist as a separate, independent work." The plaintiffs in *Arista* contended that they "*issued* [their]…works separately," and not only "together as a unit," which the court affirmed, after evidence showed that the vast majority of the songs were being sold individually via online outlets like Apple's iTunes. Those individual tracks were thus separate "works," despite being registered with the Copyright Office as a compilation. This allowed the plaintiffs to seek to recover a statutory damage award for each infringed work that was individually released.[14]

Lastly, *Arista* provides us with a hypothetical that perfectly encapsulates the decision and its applicability to this response. It reads:

> Thus, for sound recordings that, like those of the Beatles, were apparently not available as individual tracks from iTunes or other services during the time period relevant to this action, Plaintiffs can recover only one award per album infringed.
>
> For albums that contain sound recordings that are available only as part of the album, and sound recordings that are also available as individual tracks, the Court provides the following example for purposes of illustration. Let us assume that Plaintiffs issued (1) an album containing songs A, B, C, and D, and that Plaintiffs also made available (2) songs A and B as individual tracks, but (3) made available songs C and D only as part of the album as a whole. Let us also assume that songs A, B, C, and D were infringed on the LimeWire system during that time period. Plaintiffs would be able to recover three statutory damage awards: one award for song A, one award for song B, and one award for the compilation (of which C and D are a part).[15]

Gordon's Support

Gordon relied on case law he gathered from secondary source discussions regarding CFR § 202.3, like *Nimmer on Copyright*. Section 7.18(c)(3) of *Nimmer on Copyright* states that under 37 CFR § 2 02.3(b)(4)(i), "courts have validated a single registration to cover a number of songs, citing *Ocasio v. Alfanno*,[16] a 2008 District Court case from Puerto Rico, which did not deal with the issue of published musical works. Gordon cites this case for the idea that the group registration "protects each song and the recording of each song." In *Ocasio*, the only mention of such an assertion is where the Court said that "[w]hile the case law in the First Circuit is silent on this issue, other courts have found that registration of a collection extends copyright protection to each copyrightable element in the collection."[17] *Ocasio* actually relies on a Fifth Circuit case[18] from 1995 and a Third Circuit case from 1986, neither of which deal with the registration of published songs as discussed in Gordon's musical album hypothetical. Most importantly, none of the cases discuss the implications of infringements of multiple "works" within the single registered compilation.

Nimmer states that the possibility of registering a "single work" renders multiple registrations "inappropriate in many scenarios," but gives no single example that applies to music alone, but rather as it applies to other areas of art, like motion pictures and computer software. Thus, Gordon's reliance on *Nimmer* is troublesome, since *Nimmer* barely mentions music and only references the same cases that Gordon incorporates to make his bold assertions.

Conclusion

Again, while Gordon is correct that single registration does not preclude a registrant from recouping multiple statutory damage awards for the individual infringements therein, his analysis as to why is misguided and incomplete. Indeed, there are, as Gordon states, statutory provisions[19] that are designed to compensate and incentivize the freelance or "do it yourself" (DIY) artist whose business model is not conducive to the costs involved in registering each work individually. For example, Gordon mentions provisions that enable photographers whose works were published in various periodicals over a given time period to register those works in one single application. Nevertheless, while some mediums of art are expressly contemplated in these CFR § 202.3, there is no explicit mention of such a benefit for those registering sound recordings, despite Gordon's assertion. The absence of such language is especially troublesome in light of the modern way we obtain music, about which Gordon should have been more sensitive.

We are a "singles" generation and the definition of a "work" is perhaps more amorphous than it was in when purchasing full-length album was the norm (remember when artists made concept albums…?). Nevertheless, *Arista* and *Bryant* make clear that if music is being commercially released exclusively via sale of a complete album, one is only entitled to one statutory damage award for any infringements therein. If, on the other hand, the individual songs on that album, which were registered as part of the single application, are also "issued" individually, those individually released songs gain full statutory damage protection. These conclusions were held without delving into CFR § 202.3 analyses. Gordon asserts, nevertheless, that if one properly adheres to the § 202.3 requirements, irrespective of the fact that an artist has released his or her music as album only, one can recoup a statutory damage award for each song infringed. This holding, as has been stressed throughout this response, is inaccurate.

Practically speaking, the prospect of registering each individual song in order to ensure protection might quickly prove to be too costly, as Gordon sympathizes. Therefore, given the above, it would be wise to ensure that individual tracks are also "issued" separately in order to have a separate remedy for each infringing song, should the case arise. Online retailers like iTunes and Bandcamp allow artists to sell songs individually with ease, which reduces this practical difficulty. The main inquiry is therefore whether a work has been "issued" individually or as part of a compilation. This distinction is critical and merits attention, which Gordon overlooked.

Endnotes

1. See Gordon, Volume 23, Number 3 of the *Entertainment, Arts and Sports Law Journal* (Fall/Winter 2012), *available at* http://www.nysba.org/AM/Template.cfm?Section=Entertainment_Arts_and_Sports_Law_Journal&Template=/TaggedPage/TaggedPageDisplay.cfm&TPLID=4&ContentID=3332 and http://www.futureofthemusicbusiness.biz/2012/12/does-registering-multiple-works-in.html.
2. *Id.*
3. 17 U.S.C. § 504(c)(1).
4. 17 U.S.C. § 504(c)(1) (*emphasis added*).
5. 17 U.S.C § 101 (*emphasis added*).
6. 17 U.S.C § 101.
7. Bryant v. Media Rights Productions, Inc., 603 F.3d 135 (2d Cir. 2010).
8. Arista Records LLC v. Lime Group LLC, 2011 WL 1311771 (S.D.N.Y., 2011); *see generally* Costar Group Inc. v. Loopnet, Inc., 164 F. Supp.2d 688 (D. Md. 2001) (holding that where a national provider of commercial real estate sued for infringement of over 300 of its copyrighted photographs, the crucial fact in determining the scope of damages was "not the single registration, but the nature of what was registered").
9. *Bryant* at 141.
10. *Id.*
11. *See generally* Twin Peaks Productions, Inc. v. Publication International, Ltd., 996 F.2d 1366, 1381 (2d Cir. 1993).
12. *See generally* WB Music Corporation. v. RTV Communications Group, Inc., 445 F.3d 538, 541 (2d Cir. 2006).
13. Arista Records LLC v. Lime Group LLC, 2011 WL 1311771 (S.D.N.Y.), 3 (S.D.N.Y., 2011.)
14. *Id.* at 3, (quoting *Bryant*, 603 F.3d at 141). The *Bryant* decision led the *Arista* Court to subsequently revise the holding in UMG Records, Inc. v. MP3.com, Inc., 109 F.Supp.2d 223, 224 (S.D.N.Y. 2000), upon which defendants relied, since *Bryant* mandated that a court focus on how the plaintiffs had *issued* their sound recordings, as opposed to focusing on *what* the defendant had infringed, as in *UMG*.
15. *Arista*, *supra,* note 8.
16. *See* Nimmer on Copyright, § 7.18(c)(3); Ocasio v. Alfanno, 592 F.Supp.2d 242, 245 (D. Puerto Rico, 2008) (Here, the collection at issue was comprised of previously unpublished, original works by the same author, registered under a single title for reasons of convenience and as allowed by applicable regulations (§202.3(b)(4)). Again, this case does not discuss the implications of infringements' of multiple works within the compilation.).
17. *Id*. at 245.
18. Indeed, § 7.18(c)(3) of *Nimmer* states that, regarding the single registration of unpublished songs, the Fifth Circuit held, in Szabo v. Errisson, 68 F.3d 940 (5th Cir. 1995) that Scott Szabo's song "Man v. Man" to have been validly registered thereby, notwithstanding the failure to specifically list its name on the copyright registration, since it met the §202.3 requirement that each component be "by the same author." In addition, the Court did not answer whether statutory damages are affected, and if Szabo had had multiple works under his compilation infringed, whether he'd be entitled to full statutory award per song, or as part of the album only.
19. *See supra,* note 6.

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Circuit Court Finds Fair Use in Appropriation Art and Reverses Copyright Infringement Decision

By Joel L. Hecker

In my article in the Summer 2011 issue of the *EASL Journal*, I reported on the decision by United States District Judge Deborah Batts in the Southern District of New York, which found Richard Prince (Prince), the well known appropriation artist, his gallery, Gagosian Gallery, Inc. (Gallery), and Lawrence Gagosian (Gagosian), the gallery's principal, all guilty of copyright infringement arising out of Prince's paintings based upon Patrick Cariou's (Cariou) photographs of Rastafarians in Jamaica.[1] The decision was dated and filed on March 18, 2011.[2] The Second Circuit Court of Appeals, in a long and eagerly awaited decision, reversed Judge Batts' decision, holding that she applied the incorrect standard to determine the Fair Use defense[3] and that 25 of Prince's 30 artworks in fact constitute fair use.

Appropriation art is defined as the more or less direct taking over into a work of art a real object or even an existing work of art.

Background Facts

Cariou is a professional photographer who spent time with Rastafarians in Jamaica over the course of some six years, gaining their trust and taking their photographic portraits. In 2000, he published a book of his photographs taken of Rastafarians during his time in Jamaica. The book, titled *Yes, Rasta*, was released by PowerHouse Books, which printed 7,000 copies in a single printing. The book, like many such works, enjoyed limited financial success and is currently out of print.

During discovery in the case, Cariou testified at length about the creative choices he made, including which equipment to use, how to stage and compose the individual photos and the techniques and processes he used when developing the photos. He was also heavily involved in the layout, editing, and printing of the book. The book lists Cariou as the sole copyright owner of the photos appearing in it.

Prince is a well-known and highly successful "appropriation artist" who has had his work shown at numerous museums and other institutions, including a solo show at the Guggenheim Museum in New York City. The Gallery is an art dealer and gallery which represents Prince and markets his art. Gagosian is the president, founder, and owner of the Gallery.

Between December 2007 through February 2008, Prince showed some of his artwork at the Eden Rock Hotel in St. Barts. The work included a collage entitled "Canal Zone (2007)" (Canal Zone), which consisted of a collage of 35 photographs literally torn from Cariou's book and attached to a plywood backer board. Prince had painted over some portions of the 35 photographs, used some of them in their entirety and some partially. Although the Canal Zone collage was not sold, portions of it were reproduced in a magazine article about Prince's show at the Gallery.

Prince ultimately completed 30 paintings in his contemplated Canal Zone series, 29 of which included images taken from *Yes, Rasta*. Some of the paintings consisted almost entirely of images from the book, albeit collaged, enlarged, cropped, tinted, and/or over-painted, while others used only portions of the *Yes, Rasta* photos. In total, Prince admitted using at least 41 photos from *Yes, Rasta* as elements of his Canal Zone paintings.

Cariou never sold or licensed use of his photos other than for the *Yes, Rasta* book and private sale to individuals he knew and liked. However, he was negotiating with gallery owner Christiane Celle (Celle), who had planned to show and sell his prints at her Manhattan gallery, prior to the Canal Zone show's opening. Cariou also said he intended to issue artists' editions of the photos which would be offered for sale to collectors.

Celle originally planned to exhibit between 30 and 40 of the photos at her gallery with multiple prints of each to be sold from prices ranging from $3,000 to $20,000 depending on size. She also planned to have the *Yes, Rasta* book reprinted for a book signing. When Celle became aware of the Gallery exhibition of the Canal Zone images, she canceled Cariou's show because she did not want to seem to be capitalizing on Prince's success and notoriety and because she did not want to exhibit work which had been "done already" at another gallery. The Second Circuit held that her belief was erroneous and discounted it as a measure to determine market harm.

Copyright Infringement

To prevail on a copyright infringement claim, the copyright owner must prove two elements: ownership of a valid copyright and copying of constituent elements of the work that are original.

Judge Batts found, and the Second Circuit agreed, that Cariou had undisputed ownership of a valid copyright in the photos. Judge Batts had dismissed out of hand the defendants' argument that Cariou's photos were mere compilations of facts, on the basis that over 100 years' worth of settled law conclusively determined creative photographs are worthy of copyright protection even when they depict real people and natural environments. This issue was not raised before the Circuit Court.

As to the copying of constituent elements, the Circuit Court held that Judge Batts had applied an incorrect standard and therefore Prince's admissions were not determinative under the fair use analysis.

Fair Use Analysis

The purpose of fair use is to address the inevitable tension between the property rights established under copyright's purpose "to promote the Progress of Science and useful Arts" as contained in the U.S. Constitution[4] and the ability of authors to express themselves by referencing the work of others. The doctrine of fair use is now codified in Section 107 of the 1976 Copyright Act and consists of a four-factor test.

Factor One—Purpose and Character of the Use

a. Transformative Use

This part of the test is the most important one in applying the fair use analysis. Its purpose is to determine "whether the new work merely supersede[s] the objects of the original creation or instead adds something new, with a further purpose or different character, altering the first with new expression, meaning, or message; it asks, in other words, whether and to what extent the new work is 'transformative.'"[5] The more transformative the new work, the less significance will be given to the other factors.

Judge Batts found that Prince's use of Cariou's photos was not transformative since they did not recast, transform or adopt an original work into a new mode of presentation, based in part by Prince's testimony that he had no interest in the original meaning of the photographs he uses, that he does not really have any message he attempts to communicate when making art, and that he did not intend to comment on any aspects of the original works or on the broader culture. His intent was to pay homage or tribute to other painters.

Prince also testified that he chooses the photographs he appropriates for what he perceives to be their truth. To the district court, this suggested that his purpose in using Cariou's portraits was the same as Cariou's original purpose in taking them, a desire to communicate to the viewer core truths about Rastafarians and their culture.

On these facts, Judge Batts concluded that it was apparent Prince did not intend to comment on Cariou's photos, or on aspects of popular culture closely associated with Cariou or the photos. Furthermore the district court found that Prince's own testimony showed that his intent was not transformative within the meaning of Section 107.

The Second Circuit rejected this approach as being an incorrect standard because it "impose[d] a requirement that the new work in some way comment on, relate to the historical context of, or critically refer back to the original work," in order to qualify as fair use.[6] To the contrary, held the Circuit Court, "the law imposes no requirement that a work comment on the original or its author in order to be considered transformative, and a secondary work may constitute a fair use even if it serves some purpose other than those (criticism, comment, news reporting, teaching scholarship, and research) identified in the preamble to the statute."[7] The Circuit Court went on to explain that the United States Supreme Court as well as other Second Circuit decisions have emphasized, "to qualify as a fair use, a new work generally must alter the original with 'new expression, meaning, or message.'"[8]

As a result of this "correct" analysis, the Circuit Court found that 25 of Prince's 30 artworks[11] manifest an entirely different aesthetic from Cariou's photographs. Where Cariou's serene and deliberately composed portraits and landscape photographs depict the natural beauty of Rastafarians and their surrounding environs, Prince's crude and jarring works, on the other hand, are hectic and provocative. Cariou's black-and-white photographs were printed in a 9 ½" x 12" book. Prince has created collages on canvas that incorporate color, feature distorted human and other forms and settings, and measure between 10 and nearly 100 times the size of the photographs. Prince's composition, presentation, scale, color palette and media are fundamentally different and new compared to the photographs, as is the expressive nature of Prince's work."[9] As a result, the Second Circuit requires an examination to determine "how the artworks may reasonably be perceived in order to assess their transformative nature."[10]

The Second Circuit majority opinion concluded that 25 of Prince's images did in fact have a different character, gave Cariou's photographs a new expression, and employed new aesthetics with creative and communicative results distinct from Cariou's. The court rejected a bright line test that any cosmetic changes to photographs would necessarily constitute fair use. Instead, it pointed out that a secondary work may modify the original work without being transformative. One example given was where a derivative work that merely presented the same material but in a new form, such as a book of synopses of televisions shows, was not transformative.[12]

b. Commerciality

The second prong of the first fair use factor concerns whether the otherwise infringing work serves a commercial or nonprofit education purpose. Both the District and Second Circuit courts recognized the inherent public interest and public value of public exhibition of art and of an overall increase of public access to artwork. However, the Second Circuit, having already held that 25 of Prince's works were transformative, did not place much significance on its commercial aspect. The Second Circuit further rejected the District Court's conclusion that Prince's work was not transformative because he did not really have a message and was not trying to create anything with a new meaning or message. The critical point, said the Second Circuit, was how the work appears to a reasonable observer, not simply what an artist may say about the work (left unsaid is the concept of an afterthought process by the artist to avoid liability). As a result, the Second Circuit weighed this factor in favor of a finding of fair use.

Factor Two—The Nature of the Copyrighted Work

This factor is of lesser importance than the others in the fair use analysis. The key distinction in evaluating this factor is whether the original work is expressive or creative, such as a work of fiction, or more factual, in which event there is a greater leeway allowed to a claim of fair use. The district court found that Cariou's photos were highly original and creative artistic works. Consequently, Judge Batts weighed this factor against a finding of fair use. The Second Circuit also found Cariou's work to be creative and published and therefore weighing against fair use. However, since the Circuit also found Prince's work to be transformative under the first factor, it discounted this factor as being of limited usefulness.

Factor Three—The Amount and Substantiality of the Portion Used

This factor is examined in context with the inquiry focusing on whether the extent of the copying is consistent with or more than necessary to further the purpose and character of the use. Normally, the amount and substantiality factor would weigh in favor of the copyright holder where the portion used was essentially the heart of the copyrighted work. However, an insubstantial taking in and of itself is not excused merely because of that fact. This principle was cogently set forth by Judge Learned Hand, who stated that "no plagiarist can excuse the wrong by showing how much of his work he did not pirate."[7]

Since Prince appropriated entire photos in a number of his paintings and appropriated the central figures depicted in Cariou's photos in a majority of his paintings, all of which went to the very heart of Cariou's work, the district court found that this factor weighed heavily against a finding of fair use. Once again, however, the Second Circuit ruled otherwise, finding that the court must consider not only the quantity of the materials taken (as per the District Court) but also "their quality and importance" to the original work.[13] According to the majority opinion, since 25 of Prince's artworks used key portions of Cariou's photographs to conjure up at least enough of the original to fulfill the transformative purpose,[14] this factor was found to weigh heavily in Prince's favor.

Factor Four—Market Harm

This factor requires the court to consider the extent of market harm caused by the infringement as well as whether there is a substantial adverse impact on the potential market for the original. That is, actual harm as well as potential future harm. The Circuit Court rejected the District Court's holding that actual harm was evident in the fact that Celle, Cariou's gallery owner, discontinued plans to show the *Yes, Rasta* photos and to offer them for sale to collectors and not to republish the book, because Prince's paintings had usurped the market, as well as Cariou's indication that he had intended to issue artists' editions of his photos for sale to collectors (which served as proof of potential harm). The test, opined the Second Circuit, was "whether this secondary use *usurps* the market of the original work," and not whether the secondary use suppresses or even destroys the market for the original work or its potential derivatives.[15]

As a result, this factor weighed in Prince's favor since his work appeals to an entirely different sort of collector than Cariou's, and because Cariou has not actively marketed his work or sold work for significant sums (earning only $8,000 in royalties) as opposed to Prince's sale of eight artworks in this series for $10,480,000).

Accordingly, the Circuit Court found that this fourth factor also weighed against the finding of fair use.

Liability of Gagosian Defendants

Since 25 of Prince's artworks were found to fall under the fair use defense, the Second Circuit reversed the District Court findings that the Gallery and Gagosian had infringed Cariou's exclusive copyright rights, and were liable as vicarious and contributory infringers. The remaining five artworks were remanded to the District Court for an evidentiary hearing. As a result, Cariou's claims against the Gagosian defendants on these five artworks remain pending.

Injunctive Relief

The District Court's injunction was obviously vacated in light of the reversal. Since the parties had agreed at oral argument that the destruction of Prince's artwork would be improper and against the public interest, the District Court was instructed to revisit what injunctive relief, if any, would be appropriate in the event it found any of the defendants liable for copyright infringement as to the five remanded artworks.

En Banc Petition

Cariou did not accept this decision by just two Second Circuit judges as the final word. He filed a petition with the Second Circuit for a rehearing *en banc*, which is a rehearing before the full 13-judge complement of the Second Circuit. If the petition for a rehearing is granted (which is far from certain) the full court's decision would supersede the recent three-judge panel decision. This type of petition can also be the basis for a subsequent appeal to the Supreme Court.

Conclusion

Appropriation art has long been a hot topic in the copyright and artistic communities, with many copyright owners challenging the concept that an artist can simply infringe creative work under the name of "appropriation," while many artists (who are also copyright owners) believe that "appropriation" is a legitimate exercise in artistic freedom. The Second Circuit decision sways heavily on the side approving "appropriation," but the test laid out leaves room for individual circumstances, witness the fact that five artworks may still be found to be infringing.

Given the lack of clarity by the Circuit Court as to any definitive test, and the reliance by the two judges in the majority as to their personal taste and viewpoint, as juxtaposed against the dissenting judge's belief that all 30 artworks be remanded for an evidentiary hearing, this issue is certainly far from being resolved.

Endnotes

1. Cariou v. Prince, 784 F.Supp. 2d 337 (S.D.N.Y. 2011), *rev'd and vacated in part by* Cariou v. Prince, No. 11-1197-cv, 2013 WL 1760521 (2d Cir. 2013).
2. *Id.*
3. Cariou v. Prince, No. 11-1197-cv, 2013 WL 1760521, at *6 (2d Cir. 2013).
4. U.S. Const., Art. I, §8, Cl. 8; *see also Cariou,* 2013 WL 1760521, at *4.
5. *Cariou*, 784 F. Supp. 2d at 347 (citing to *Salinger v. Colting*, 641 F.Supp.2d 250, 256 (S.D.N.Y. 2009), *rev'd on other grounds,* 607 F.3d 68 (2d Cir. 2010). It should be noted that Judge Batts also wrote the District Court opinion in the *Salinger* case.
6. *Cariou*, 2013 WL 1760521, at *5.
7. *Id.*
8. *Id.*
9. *Id.* at *9. The Dissenting Opinion would have remanded all 30 of the artworks to the District Court for a factual hearing under the correct legal standard.
10. *Id.* at *11.
11. Second Circuit Opinion, page 14.
12. Second Circuit Opinion, page 15.
13. *Cariou*, , 2013 WL 1760521, at *6-7.
14. *Id.* at *7.
15. *Id.* at *8.

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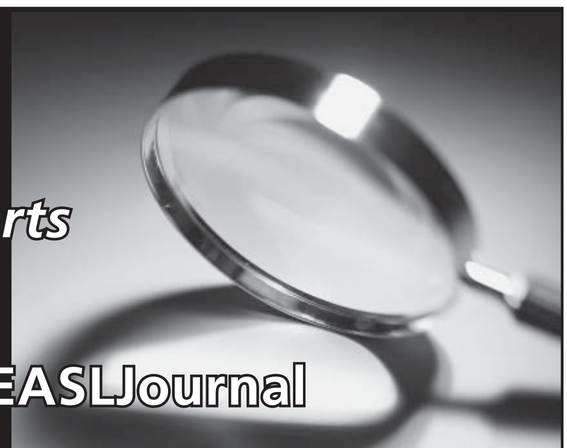

How to Use Unpaid Interns the Right Way (and Keep Litigation at Bay)

By Kristine A. Sova

Employers cannot seem to catch a break when it comes to wage-and-hour litigation. Over the last decade, the federal courts have seen a 325% increase in wage-and-hour claims. Now, as classes of paid workers across various industries are being depleted, the plaintiffs' bar is pursuing wage claims on behalf of unpaid interns, by claiming that the interns were really employees who should have been paid for their work.

As is often the case, one law firm successfully targets an industry or pay practice and is quickly followed by other lawyers who seek plaintiffs to target other employers using copycat complaints. The initial wave of unpaid intern lawsuits were filed in New York by the reputable law firm, Outten & Golden LLP, between late 2011 and the middle of 2012. The cases are: *Glatt et al. v. Fox Searchlight Pictures Inc.*, Civil Action No. 11 Civ. 6784 (S.D.N.Y. Sept. 28, 2011); *Wang v. The Hearst Corporation*, Civil Action No. 12 Civ. 0793 (S.D.N.Y. Feb. 1, 2012); *Bickerton v. Charles Rose et al.*, Index No. 650780/2012 (N.Y. Cty. Sup. Ct. Mar. 14, 2012); and *Wang v. Fenton Fallon Corp.*, Civil Action No. 12 Civ. 5188 (S.D.N.Y. July 3, 2012) (this is the same Wang that sued the Hearst Corporation months earlier).

In the past six months, the first copycat lawsuits have cropped up, signaling that employers really cannot afford to wait any longer to review their internship programs.

While many plaintiffs' firms employ an industry-specific approach when it comes to wage-and-hour litigation (like the financial services and restaurant industries), that is unlikely to be the case when it comes to intern litigation. Outten & Golden has set up a website to solicit potential clients nationally, without any regard to industry, geography or status as a for-profit or non-profit entity. Further, the first round of intern lawsuits focused on the film and media industries, the initial round of copycat lawsuits have already targeted other industries (such as education). Naturally, any businesses that rely heavily on interns will be the most desirable, but certainly not only, targets of plaintiffs' attorneys.

To avoid liability, businesses must comply with both federal and state laws. This article focuses on the requirements at both for-profit and non-profit businesses.

Federal Law Requirements for Unpaid Internships

Under the federal Fair Labor Standards Act (FLSA), there is a six-part test for unpaid internships at for-profits:

1. the internship is similar to training that could be given in an educational environment;
2. the internship experience is for the benefit of the intern;
3. the intern does not displace regular employees, but rather, works under closer supervision of staff;
4. the entity derives no immediate advantage from the intern (and, on occasion, the entity's operations may actually be impeded);
5. the intern is not necessarily entitled to a job at the conclusion of the internship; and
6. the intern has been notified, and understands, that he or she is not entitled to wages for time spent participating in the internship.

The U.S. Department of Labor (DOL) historically has taken the position that all six of these criteria must be satisfied for an individual to be considered an intern. Some courts, however, have criticized the DOL's position and have suggested that, although all six criteria should be considered, an individual may qualify as an intern under the FLSA even if not all of the criteria have been satisfied. Regardless of whether all six of the criteria must be satisfied, the key to any finding of internship status is that the internship experience must predominantly benefit the intern, not the business, and have a significant educational component.

The six-part test issued by the DOL was intended to provide guidance to for-profit employers, and the DOL noted as much in a fact sheet it issued in 2010 on the subject. In a footnote in the same fact sheet, the DOL further noted that it "recognizes an exception for individuals who volunteer their time, freely and without anticipation of compensation for religious, charitable, civic or humanitarian purposes to non-profit organizations as volunteers." The DOL continued: "Unpaid internships…for non-profit charitable organizations, where the intern volunteers without expectations of compensation, are generally permissible." Although the DOL noted in the same footnote that it was reviewing the need for additional guidance on internships in the non-profit sector, the DOL has never expressly articulated an alternative test for non-profit employers. In the absence of same, non-profit businesses should evaluate their internship programs using the DOL's six-part test. However, as is evident from the DOL's own commentary, for non-profits, the question is broader than just whether a worker meets the legal definition of "intern." Non-profits also need to consider whether their workers meet the legal definition of "volunteer."

New York State Law Requirements for Unpaid Internships

In addition, businesses must comply with applicable state laws. *On top of* the six criteria outlined above, New York's Department of Labor considers the following additional five criteria at both for-profits and non-profits:

1. any clinical training is performed under the supervision and direction of individuals knowledgeable and experienced in the activities being performed;
2. the interns do not receive employee benefits, such as insurance, or discounted or free goods or services from the business;
3. the training provided to the intern qualifies the intern to work in a similar business, rather than specifically for a job with the business offering the program;
4. the screening process for the internship program is not the same as for employment, and involves only criteria relevant for admission to an independent educational program; and
5. program advertisements are couched clearly in terms of education or training, rather than employment (although employers may indicate that qualified graduates of the program may be considered for employment).

These are stringent tests and, in most cases, New York businesses who engage interns are likely engaging employees who are entitled to minimum wage and overtime compensation. Add defense costs, liquidated damages (now double any unpaid wages owed under both federal and New York laws), and payment of the intern's attorney's fees, and one may conclude that unpaid internships are more costly in the long run than hiring entry-level workers and paying them minimum wage. If that is the conclusion business reaches, one should also be sure to record the number of hours the intern spends at work to avoid overtime liability. If payment is out of the question, however, and one operates a New York business, one needs to ensure that each of the 11 factors listed above are followed carefully.

A version of this article was originally published by Kristine A. Sova on her law firm blog. Kristine is a solo practitioner focusing on the representation of employers in labor and employment law matters. She can be found at *www.sovalaw.com*, and her blog can be enjoyed at *www.sovalaw.com/blog*.

League Ownership of Teams, Conflicts of Interest, and Personnel Exchanges

By Lewis Kurlantzick and B.J. Pivonka

National Basketball Association (NBA or the League) Commissioner David Stern's controversial "veto" in December 2011 of the trade that would have sent Chris Paul from the New Orleans Hornets to the Los Angeles Lakers raises fundamental conflict-of-interest issues. These issues are rooted in the League's ownership of the Hornets franchise, and the resulting multiple roles played by the League's chief executive. More precisely, this situation puts at risk the commissioner's neutrality, and his commitment not to favor one team over another. Though perhaps unsurprising because of the rarity of a league owning a team, what is striking in the NBA, Major League Baseball (MLB) and the National Hockey League (NHL) is the apparent absence of attention to the problem and the lack of a structural or informal response that both recognizes and looks to limit such a potential conflict of interest.

Moreover, the reaction of League owners to the Chris Paul episode points to a broader matter—the existence of a collective interest in the personnel exchanges between individual franchises and the manner in which that collective interest might be expressed. This article addresses the conflict-of-interest issues and comments on the collective League interest in personnel exchanges.

The Tale of League Ownership and the Chris Paul Trade

The New Orleans Hornets were a team in serious financial distress in 2010. For a number of years the team ranked among the lowest in attendance in the NBA. In addition, ownership was at or near its maximum credit limit, and the team's recent financial history was marked by negative cash flows, recurring operational losses, and partner deficits.

That the Hornets' economic woes caused concern for the League and led ultimately to acquisition of the franchise in December 2010[1] is unsurprising since the fortunes of the member franchises are linked.[2] After all, the financial distress of one member club can lead to disruption of the team's business as the owner seeks a solution to his financial problems, and a distress sale of a team may lower the perceived value of other teams. Further, involvement of a bankruptcy court can limit the League's ability to control the eventual disposition and new ownership of the team.[3]

In December 2011, the League-owned Hornets were looking to trade their star guard, Chris Paul. Under the terms of a three-team, six-player deal, Paul would have moved to the Los Angeles Lakers. In exchange, the Lakers would have sent Pau Gasol to the Houston Rockets and Lamar Odom to the Hornets. New Orleans also would have received Rockets' guards Kevin Martin, Goran Dragic, and forward Luis Scola. In addition, the Hornets would have received the New York Knicks' first-round draft pick in 2012, which the Rockets had acquired in a previous trade.

The deal appeared to be an equitable one for New Orleans, particularly since Dell Demps, the Hornets' General Manager, had little leverage with possible trade partners, as Paul was able to opt out of his contract in the summer of 2012 and had informed the Hornets that he intended to leave. The exchange would have yielded the team a generous package of talent. Martin was among the top scorers in the League; Odom was a versatile big man who had been named the Sixth Man of the Year in 2010-11; and Scola was a rugged and skilled power forward. The terms of the exchange surely did not suggest any abnormality in the process, nor did they differ in some obvious way from Demps's prior transactions with which the League did not interfere.[4] Indeed, the notion that Stern had greater knowledge about League personnel than Demps was an odd one, as it was Demps' full-time job to deal in such matters.

Dan Gilbert, the owner of the Cleveland Cavaliers, though, deemed the trade a "travesty" and reportedly expressed his disapproval to Stern: "I just don't see how we can allow this trade to happen. I know the vast majority of owners feel the same way that I do. When will we just change the name of 25 of the 30 teams to the Washington Generals?"[5] Apparently, a number of other small market owners registered similar concerns with the commissioner about the move of another star to a big-market team.[6] In explaining the decision to block the trade Stern insisted that the communications from small-market owners had no effect on his judgment.[7] He stated:

> Since the NBA purchased the New Orleans Hornets, final responsibility for significant management decisions lies with the commissioner's office in consultation with team chairman Jac Sperling. All decisions are made on the basis of what is in the best interests of the Hornets. In the case of the trade proposal that was made to the Hornets for Chris Paul, we decided, free from the influence of other NBA

owners, that the team was better served with Chris in a Hornets uniform than by the outcome of the terms of that trade.[8]

On one interpretation the reference to Paul's value to the Hornets as a player—"better served with Chris in a Hornets uniform"—was fatuous. Of course, the team would prefer to have an outstanding player (indefinitely) as a member of the squad. Yet that was not an available alternative since everyone knew that Paul planned to leave New Orleans after the 2011-12 season.[9] Thus, the task for Demps was to make the best deal possible so as to avoid the unpleasant scene of an unhappy superstar playing out a lame duck season (as had occurred with the Nuggets and Carmelo Anthony). Indeed, Paul was traded a few days after Stern nixed the trade to the Lakers.[10]

Whatever the stimulus that prompted the veto (and whatever one believes about the extent of Demps's authority), the timing of the League action, at least, was peculiar.[11] The terms of the three-team trade had already been publicly reported, and Stern's action, therefore, produced significant fallout.[12] Lamar Odom, for example, was so disturbed by the knowledge of his inclusion in the scuttled exchange that he requested that the Lakers trade him, a request that the team honored by sending him to Dallas in a lopsided exchange.[13] The Lakers were left fuming by the intervention and its effects.[14] The center-desperate Houston Rockets were seriously distressed, as—in addition to facing the task of dealing with Scola and Martin, the players the team just tried to trade—the acquisition of Pau Gasol was apparently part of a broader plan to sign free-agent Nene Hilario, giving the team one of the better front lines in the League.[15] Indeed, Les Alexander, the Rockets' owner, remains personally bitter with Stern,[16] and Dell Demps supposedly had to be talked out of resigning.[17]

While there is no hard evidence, it is difficult not to suspect that the Clippers' change of position, whereby the team exhibited willingness to give up players whom it previously had adamantly resisted including in the trade, reflected, at least in part, a concern about the possibility of future payback by the commissioner in light of the importance of the central League office. After all, the result of Stern's scuttling of the trade to the Lakers was that the Hornets had less leverage. The Lakers were one of a few teams with which Paul would entertain staying for the long term, and the Hornets were essentially told that they could not deal with the Lakers. Thus, the Lakers were not present to drive up the bid for Paul.[18]

Notably, Chris Paul desired to exit New Orleans despite the fact that the Hornets could offer him a longer and larger contract. Indeed, the new collective bargaining agreement (CBA) contains a number of provisions that permit an existing team to offer a more generous financial package than a new team and therefore to make free agency less attractive.[19] The end result of the scenario, which still reflected Paul's leverage as a soon-to-be unrestricted free agent, then, makes owners such as Gilbert and Jordan little happier.[20] To a considerable extent, the complaints of owners such as Gilbert indicate a fundamental dislike for the institution of free agency and their expression in the present CBA. Some owners simply disapprove of players' opportunities for mobility and its consequences.[21] However, as long as a significant measure of free agency exists, owners cannot control players' desires to move to teams that include other players with whom they want to play.[22]

Whatever one makes of Stern's veto and criticisms of it, amidst the maneuverings and explanations about Chris Paul's employment destination, the issue of conflict of interest was ignored or downplayed.[23] This conflict is one of the fundamental issues at hand any time a league steps in to manage an individual franchise. A conflict of interest exists when an organization or individual is associated with multiple interests, one of which could possibly corrupt the motivation for an act in the other.[24] The concern is that the existence of the influence will tend to make the person's judgment in that situation less reliable than it would normally be.[25] In the NBA situation the conflict runs in two directions. The team may be operated to serve the interest of the League;[26] and the League may be operated to benefit the team.[27] A striking example of a situation that raises the second type of tension is when a team files a tampering charge against another team. Such a charge alleges that the second team has had impermissible contact with a player on the first team. Indeed, to underline the point, suppose that a charge had been filed by New Orleans against another franchise, for example the Lakers, claiming that the other franchise had tampered with Chris Paul. In such a scenario the commissioner would not only be wearing multiple hats as owner of the Hornets and adjudicator of claims alleging violation of League rules, but his decision would likely raise suspicion that these conflicting interests affected his judgment. It is to avoid such suspicion that judicial codes of ethics require a judge to excuse himself from decisions in like situations.[28] Similarly, a failure by the commissioner to avoid or respond to the conflict would bespeak a lack of attention to or concern for the need to insure impartiality in resolving disputes, to protect the commissioner's reputation, and to instill confidence in affected parties in the fairness of the League processes.[29]

While the tampering hypothetical starkly presents the conflict problem, there are numerous instances where a league commissioner exercising his typical authority would face the same predicament. For example, he may be called upon to exercise his authority to resolve a draft-related dispute, to approve a player trade, to sanction players, or to arbitrate a disagreement between a franchise and a coach. Obviously, the league-owned team could be involved in any of these scenarios. Here the appropriate response is to provide for abstention by the commissioner and the appointment of an independent arbitrator to decide the matter. That arrangement is designed to serve the interests in insuring impartiality and generating confidence in the process.[30] Notably, when this kind of conflict arose in MLB with the commissioner ruling on a matter that affected the interests of a team that he owned, apparently no thought was given to such a recusal.[31]

League officials, including the commissioner, have a responsibility—whether denominated a fiduciary duty or given some other appellation —to conduct their activities for the benefit of the league as a whole.[32] To behave in a way that provides differential treatment for a league-owned franchise runs counter to that charge. Indeed, on one reading a plausible argument can be made that a move by Chris Paul to the Lakers would have benefited the League as a collective. The line of thinking would be that historically the NBA's popularity has been successfully built on the participation of many teams but on the brilliance of a few, particularly the Lakers and Celtics. Unlike the NFL, parity has never been a significant force in the NBA.[33]

The point can be put more broadly—there is an inherent conflict between ownership and regulation. A recent, remarked-upon example, in a different context, is the situation created by the United States government's holding of a major equity interest in General Motors.

As a result of the federal financial rescue plan intended to stabilize General Motors and Chrysler, the government emerged as the owner of a controlling interest in the companies. This condition of multiple interests as both owner and regulator has created suspicion that the results of safety tests have been distorted or concealed in order to support the share price. The conflict is not limited to safety issues. For example, General Motors is subject to executive pay restrictions that no private equity owner would accept to the extent that they limit its ability to attract and retain management talent.[34] League control of a franchise begets similar owner-regulatory conflicts and generates analogous suspicions.[35]

One might initially think that the conflict of interest, and the compromised judgment attending it, would be regarded as inconsequential by the League owners since each of them owns an equal fractional interest in the League-controlled team. Yet that is not the case, since any such decision will have differential impact; that is, it will affect teams differently. Consider the response to the proposed Chris Paul trade itself. While in a formal sense, all the teams will "benefit" equally from a decision made to support the League-controlled team, in fact any "benefit" or "harm" will not be experienced equally.[36] For most owners, the central question about any decision (or proposed change of rules) is whether it will place them ahead of their rivals.[37] Ownership of a sports team is mostly about relatives, not absolutes.[38]

Baseball's Owner-Commissioner: An Example Not to Be Followed

In 1992, following the resignation of Fay Vincent,[39] Allan "Bud" Selig, owner of the Milwaukee Brewers, was selected to be the acting Commissioner of MLB. Midway through the 1998 season, MLB's owners voted to give Selig the commissioner title on a permanent basis.[40] Here the presence of a conflict was evident, and, unsurprisingly, it did not take long for incidents that implicated the tension to arise.

First, exacerbating the conflict, Selig, while acting commissioner, continued to receive an executive salary of approximately $500,000 a year from the Brewers in addition to his generous commissioner's compensation.[41]

Further, in 1995 Selig secured a $3 million loan for the Brewers from Carl Pohlad, the owner of the Minnesota Twins.[42] Baseball rule 20(c), though, bars intra-team lending, stating that owners may not loan one another money without first obtaining permission from the commissioner and the other owners.[43] The rule is designed to protect against one team having unfair influence over another—for example, in affecting trades—and its purpose is to avoid even the appearance of a conflict of interest. Selig, nevertheless, did not seek approval of the loan from the other owners.[44]

The next episode also involved Selig's good friend, Carl Pohlad. Following the 2001 season, MLB moved to dissolve two of its 30 teams before the 2002 season began.[45] While no formal decision had been made as to which two franchises were to be contracted, the universal assumption was that the two likely candidates were the Montreal Expos and the Minnesota Twins. Such a plan would have produced a very generous buyout of Pohlad in an amount much greater than what he had paid for the team. More significantly, from a conflict-of-interest perspective, as a result of elimination of the Twins the Brewers would recapture fans in western Wisconsin and parts of Minnesota and its television market would expand appreciably. Contraction of a team from MLB's 13th largest media market would enlarge the uncontested reach of the Brewers' market to its west by several hundred miles.[46]

Finally, the terms and administration of the 2002 CBA greatly advantaged the Brewers. That CBA introduced a new extensive revenue sharing system, ostensibly put in place to improve competitive balance. However, if the system was responsible for the achievement of greater balance, it would have been because the revenues transferred to the bottom teams were being used to increase payroll. In fact, however, that was not the case as there was no payroll rule for teams receiving money transfers,[47] and the system's incentives discouraged payroll increases, particularly for low-revenue teams. The one policy in place to insure that transfers be spent on payroll was an admonition in the CBA to be enforced by the commissioner: "[E]ach Club shall use its revenue sharing receipts…

in an effort to improve its performance on the field. The commissioner shall enforce this obligation."[48]

Yet the Brewers, owned by Selig's family, were a low-revenue team. If Selig enforced on other teams the provision that teams receiving transfers spend that money in an effort to improve on-field performance, he would also have had to apply it to the Brewers, thereby raising the Brewers' payroll. In fact, the Brewers benefited more than any other team from the 2002 CBA. Its revenue-sharing receipts rose from $1.5 million in 2001 to $9.1 million in 2002 and to $18.35 million in 2003. At the same time, though, its opening day payroll moved in the opposite direction, decreasing from $52.7 million in 2002 to $40.6 million in 2003 and to $27.5 million in 2004, the lowest of baseball's 30 teams. So, was Selig likely to enforce the admonition? Likely or not, he did not.[49]

Selig might respond that there are different routes to team improvement and permitting teams to use revenue-sharing receipts for purposes such as reducing debt may ultimately benefit performance. He might add that each team has different needs and different approaches for building a winning franchise. Whatever the ambiguity about whether his behavior was conflicted (assuming there is an ambiguity) the fundamental point is that the appearance of a conflict of interest weakened the perception of the integrity of the office. Indeed, any initiative by Selig to redistribute the game's revenues will smack of a conflict of interest.[50]

Selig's transfer of control of the Brewers to his daughter in 1998 hardly ameliorated concerns about conflicts of interest, as she is a close family member.[51] Moreover, he placed his shares in the Brewers in a "blind trust." A blind trust is an arrangement in which the trustees (fiduciaries) have full discretion over the assets and the trust beneficiaries have no knowledge of the trust's holdings and no authority to intervene in their handling. Typically, a blind trust is employed when a person with multiple assets is selected for public office. The personal assets are placed in a trust, and during the term of the trust the officeholder has no idea what transactions are made with respect to those assets. However, in Selig's case, even though others could vote his shares, only one asset was involved and Selig would inevitably know if it was sold, and he surely knew that when he left office the value of the team would have been affected by his decisions. In short, there was nothing blind about the arrangement.[52]

League commissioners have expansive authority to administer league affairs, to provide a fair and impartial forum for resolution of interclub controversies, to execute by-laws and constitutional provisions neutrally, to distribute money from discretionary funds, and to look after the overall interests of the game. Having an owner occupy the position of commissioner carries implications of self-interest in the performance of these functions. Accordingly, perhaps unsurprisingly, and in contrast with the baseball experience, all of the other major North American sports leagues have constitutional provisions designed to avoid the situation of a compromised commissioner. These provisions stipulate that the commissioner cannot own a team, or a piece of a team, in his or her own league or in any other league. Thus, the NBA, NFL, and NHL constitutions state: "the commissioner shall have no financial interest, direct or indirect, in any professional sport."[53]

Possible Responses to the Conflicts Problem

While the existence and intensity of conflict are more apparent when the commissioner personally owns a team, a similar multiplicity of interests and roles occurs when a league, headed by a commissioner, owns a team. The difference in the two situations is one of degree. The question, then, is how the league might deal responsibly with the conflicts produced by league ownership of a franchise.

As noted previously, there are numerous instances in which the NBA commissioner might be called on to exercise his or her authority in matters involving the League-owned team. Thus, under the NBA Constitution and By-Laws, the commissioner has "full, complete and final jurisdiction of any dispute involving two (2) or more Members of the Association"; the power to "interpret… the provisions of the Constitution"; and the "power to declare null and void any Player transaction made by and between Members of the Association or by and between Members of the Association and any organization outside of the Association."[54] In a case where the commissioner is called on to adjudicate a dispute between parties, one of which is the League-owned franchise, an appropriate response would be to refer the matter to an independent arbitrator. The parties should be given a voice in identifying that decision-maker, whether by authorizing them to agree on the person or by providing them a veto over the commissioner's choice(s).

Assignment of the matter to a designee of the commissioner[55] in the NBA office would be an inadequate move, as the designee would be aware of the interests of the League-owned disputant and would be similarly tainted. The relatively small number of executives in the NBA office also argues against the advisability of a designation. Here there is an analogue to the negative judicial reaction to law firm efforts to employ a "screen" or "wall" to deal with the conflicts that arise when lawyers change firms when the new firm is small.[56] In such a firm where lawyers regularly interact with each other, there is a heightened possibility that inadvertent disclosures of confidences and secrets gained through the disqualified lawyer's prior representation will occur. In that setting the assumption that any confidential information that one member of a firm has is accessible to other members of the firm and that any conflict of interest that affects a member of the firm will also affect other members has credibility.[57]

The idea that a sports league commissioner should decline participation due to a conflict of interest when called upon to adjudicate a particular dispute is not as radical a notion as it might first appear. For example, in 1972 Julius Erving brought an action to set aside his contract with the Virginia Squires of the American Basketball Association (ABA) for fraud. The court ordered arbitration of the claims as required by the contract. However, although the contract provided for arbitration by the league commissioner, the court ordered the substitution of a neutral arbitrator because the ABA Commissioner, Robert S. Carlson, was a partner in the law firm that represented Erving's employer, the Squires.[58] The conflict of interest in the Erving situation is quite similar to what would occur if the NBA Commissioner was called on to rule in a dispute involving two teams, or a team and a player, one of which was the League-owned franchise.[59] In both *Erving* and our hypothetical, the appointment of an independent decision-maker is necessary to insure a fair and impartial hearing.[60] Disclosure of the conflict would be an inadequate response, as the parties are already aware of the conflict and therefore prevention of deception is not at stake.[61]

While recusal and substitution of an independent decision-maker is a feasible and apt response in the case of a narrow, highly focused dispute, such as that in the *Erving* case, the ongoing, pervasive conflicts inherent in operation of a franchise, exemplified by personnel decisions involving Chris Paul, require a correspondingly more comprehensive arrangement. An analogy is the institution of the independent receiver. To the extent possible, the need is to construct an arrangement guaranteeing operational independence that will assure fans of team autonomy, i.e., that the team will function no differently from other franchises with respect to its relationship to the League. Construction and maintenance of a suitable structure is likely to be complicated by the fact that the other League members are both fractional owners of and competitors with the League-owned franchise.

The need for a prophylactic barrier to separate two parts of an organization to prevent conflicts arises in a number of settings other than sports. Often referred to metaphorically as a "Chinese wall," the segregation is designed to limit communication in order to manage conflicts of interest and to prevent the movement of confidential information. In journalism, for example, there is a screen between the newspaper's newsroom and the business (advertising) department. The objective is to have news coverage decisions made uninfluenced by knowledge of who is advertising (or might advertise) with the newspaper and what those advertisers want. Similarly, in a multi-function financial institution, typically a barrier is put in place to separate those giving corporate advice on takeovers from those advising clients about buying shares. Here the aim is to prevent leaks of corporate inside information, which could influence the advice given to clients making investments and allow staff to take advantage of facts that are not yet known to the general public.[62] The policies and procedures are designed to stop the passage of price-sensitive information across two divisions of a firm.[63] In the legal profession, when a lawyer moves from one firm to another, a screen, whereby communication is restricted between the lawyer who has moved and the other lawyers in the firm working on the matter that created a conflict, is sometimes employed in an effort to prevent "imputed" disqualification of the second firm.[64]

However, in defending his actions in the Chris Paul affair, David Stern observed accurately that no superstar is traded in the NBA unless the owner gives his or her approval. The challenge, then, is to create—within the overall framework of autonomy—a mechanism for handling trades that takes account of both this legitimate ownership interest and the presence of the conflict of interest. A procedure that would provide adequate distance would be to designate a retired, respected former NBA executive to evaluate proposed trades by the League-owned team—someone with no current ties to basketball but with a background of credible expertise. The expert would have no ax to grind, nor would he or she hold any lingering grudges against any of the other teams in the League.[65]

The difficulty with creation of the necessary operational autonomy lies not just in design of the structure, but in its implementation.[66] After all, the separation arrangement is self-policing; it relies on the discretion and meticulousness of the parties involved. Accordingly, even if it accomplishes some filtering, it can often be circumvented informally without much effort. Recent financial scandals involving breach of the relevant walls raise serious doubts about the general efficacy of this kind of compartmentalization arrangement. The evidence, at least from this industry, indicates the porousness of Chinese walls. The literature on the subject supports skepticism about achievement of the intended objective.[67] Clearly, effectiveness requires prompt implementation[68] embraced by upper management, and vigilant enforcement.[69] An arrangement with physical and structural separation is most likely to be effective.

How likely is it that a league and its owners will be willing to commit to the necessary separation and attendant arrangements? Leadership from the top is critical to effectiveness. The fact is that the NBA, at least, showed clear awareness of the conflicts issue in fashioning the autonomy of the Hornets' management.[70] The problem was that, in the end, the commissioner failed to respect this autonomy.[71]

The difficulty in defining the autonomy of management in a setting where the league-owned franchise is a competitor with the other league members is illustrated by the task of setting the budget for the franchise. To some extent this decision is limited by the provision in the NBA CBA that requires a minimum payroll expenditure by each team.[72] MLB's experience with the Expos, in a collective bargaining framework without a required team payroll floor, though, offers a stark example of the muddle that can result. Baseball's owners regularly placed budgetary (and other) limits on the Expos in order to weaken the team as an on-field competitor. For example, in September 2003, with the Expos in the race for a playoff spot, the team looked to execute the standard late-season call-up of minor league players. However, the owners would not approve the additional $50,000 that it would have cost to do so.[73] Similarly, at the end of the 2003 season, Vladimir Guerrero, the Expos' star player, was the premier offensive player on the free agent market. Rather than let the Expos keep its best player, the owners shrunk the Expos' budget so that the team's general manager was able to make only a token offer to keep Guerrero.[74]

The absence of an institutionalized structural acknowledgment of the conflict issue in the NBA and other leagues[75] is likely due, in part, to the rareness of league ownership of a team and of the presence of situations during such ownership that highlight the conflict. Presumably, David Stern had in mind this infrequency when he (wrongly) disclaimed the existence of a conflict of interest in his role in the trade decision and referred to the incident as a "frozen moment in time."[76] Of course, the behavior of leagues might also reflect a misjudgment about how much the conflict might affect their commissioners' judgment; and, indeed, people with a conflict often credit too highly their own reliability.[77] In addition, when leagues have assumed ownership of a franchise, undoubtedly the intention was to quickly identify a new owner and arrange for a transfer of the ownership.[78] However, intention and eventuality have dramatically diverged. Thus, MLB ran the Expos/Nationals for four and a half years. The NHL has owned the Coyotes for over three years, and the NBA wound up owning the Hornets for a year and a half.

Postscript

Commissioner Stern remarked at the time that confusion attended his handling of the proposed trade of Chris Paul to the Lakers because the media failed to distinguish between action by him in his role as CEO of the Hornets and action by him in his role as guardian of the League's collective interests. Consider the following:

Widget manufacturers form a national trade association. They select a person to serve as Widget Czar. The Czar is given authority to regulate transactions "in the best interests of the widget industry." Among other actions, the Czar has ruled that widget manufacturer C cannot buy some of the principal assets of manufacturer D. The Czar speaks in terms of "ruinous competition" and manufacturing "balance." This arrangement and the Czar's ruling would strike one as not only unusual but as illegal as a violation of the Sherman Act. The ruling runs counter to the economic interest in resource mobility. Subject to a concern about monopoly, there is a social value in resources moving to their most highly valued uses. Moreover, the reference to "ruinous competition" seems to erroneously presuppose that a business has a right to continued existence, whereas, in fact, it is for the market to make that assessment. There is no reason to mourn the demise of a company that offers a lousy product or service. There is also no efficiency interest served by a "balanced" widget industry.[79]

Yet professional sports leagues have been known to take action to ban, or inhibit, the transfer of assets between teams. A well-known example is the prohibition on significant cash sales of players. This restriction precipitated the confrontation in MLB between Charley Finley, the owner of the Oakland Athletics, and Commissioner Bowie Kuhn. Kuhn voided, as not in the best interests of baseball, Finley's cash sale of three of his best players to the Boston Red Sox and New York Yankees. Finley responded with a lawsuit, arguing unsuccessfully that Kuhn had exceeded his authority.[80] Similarly, the present NBA CBA limits the amount of cash a team can pay or receive each season to a "maximum annual cash limit."[81] This kind of restriction on asset transfer is rooted in the interdependence of members of a league.[82] The fortunes of one team affect the fortunes of the others.[83] For example, unlike in the widget industry, where one manufacturer is uninterested in the bankruptcy of another, there is a collective interest in the financial stability of league members.

A more conspicuous, ongoing example of restriction on management authority to control a team's assets is the NBA's so-called Stepien Rule. Named after Ted Stepien, the one-time owner of the Cleveland Cavaliers who gained notoriety for his troubling pattern of trading draft picks,[84] the rule prohibits a team from trading its first-round draft pick in consecutive years.[85] In 2008, Gregg Popovich, outraged by what he viewed as a one-sided transaction that sent Pau Gasol from the Memphis Grizzlies to the Los Angeles Lakers, proclaimed, "What they did in Memphis is beyond comprehension. There should be a trade committee that can scratch all trades that make no sense. I just wish I had been on a trade committee that oversees NBA trades. I'd like to elect myself to that committee, I would have voted no to the L.A. trade."[86] Though Popovich's proposal appears facetious, his reaction—and the attendant restriction on franchise operation—is grounded in the interdependence of teams that have been noted herein.

Action with respect to the disposition of assets is, in fact, a reflection of a broader league interest in the competent stewardship of teams. A team with no hope of success harms local fans and the overall attractiveness of the sport. In light of interdependence, it makes sense for a league to hold each owner accountable for the management of his or her franchise. However, in a club-run league with the clubs enjoying perpetual monopoly status, the usual market mechanisms that would protect fans are unavailable,[87] and it is striking that team owners rarely hold a fellow owner accountable for the poor stewardship of a team.[88] The history of the Los Angeles Clippers under the ownership of Donald Stirling provides the stark example of sustained mismanagement and unaccountability.[89]

Endnotes

1. The League purchased 100% of the team. The NBA's objective was to quickly identify a buyer for the team (and hopefully turn a profit). However, it took a year and a half before the sale of the Hornets. *See Saints Owner Agrees to Buy Hornets,* ESPN (April 19, 2012 1:19PM ET), http://espn.go.com/nba/story/_/id/7809655/new-orleans-saints-owner-tom-benson-agrees-buy-new-orleans-hornets.

2. Similar concern for the protection of asset values and the maintenance of stability led to league purchase of the Phoenix Coyotes in the NHL and the Montreal Expos in MLB. Leagues have taken steps short of ownership with respect to distressed franchises, such as the Buffalo Sabres, Ottawa Senators and Dallas Stars in hockey, and the Texas Rangers and Los Angeles Dodgers in baseball. In these situations the leagues exerted varying levels of control over operations while they sorted out disputes with creditors and shopped for new owners. Interestingly, in 1935 the Boston Braves franchise was forfeited to the National League because of the club's failure to fulfill its contractual obligations over an extended period of time. While the league was prepared to appoint a general manager and operate the team, within two weeks controlling interest in the club was sold to a former Red Sox and Dodgers executive. *See* John Drebinger, *National League Takes Over Affairs of Braves at Meeting of Club Owners*, N.Y. Times (Nov. 27, 1935) at 25; The Common Man, *Random Thursday: The 1936 Bees and the 2011 Dodgers*, The Platoon Advantage (Apr. 21, 2011), http://www.platoonadvantage.com/2011-articles/april/random-thursday-the-1936-bees-and-the-2011-dodgers.html.

3. *See*, *e.g.*, *In re* Dewey Ranch Hockey, LLC, 414 B.R. 577 (Bankr. D. Ariz. 2009) (Phoenix Coyotes bankruptcy proceeding); David Wharton & Bill Shaikin, *Bankruptcy Filing Changes the Playing Field for Frank McCourt's Struggle with Major League Baseball*, L.A. Times (June 29, 2011), http://articles.latimes.com/2011/jun/29/sports/la-sp-dodgers-mccourt-bankruptcy-20110630. In addition, with ownership comes the need to exercise substantial supervision over the individual team operations, a role that the commissioner does not typically play. Thus, a league office generally has no responsibility for hiring and supervising coaches, general managers, or team marketing directors or for negotiating a team's arena lease or concessions contract.

4. From October 23, 2010 to December 8, 2011 the New Orleans Hornets acquired five players by trade and 18 players by signing. *New Orleans Pelicans Transactions*, RealGM Basketball, http://basketball.realgm.com/nba/teams/New_Orleans_Hornets/19/Transaction_History (last visited May 4, 2013). Apparently, in none of these cases did the League office, as owner, intervene in any way with respect to a trade or signing or treat the actions as "franchise-altering decisions" and therefore exercise review authority over the general manager's judgments.

5. Mike Bresnahan & Broderick Turner, *Lakers' Deal for Chris Paul Is a No-go, the NBA Rules*, L.A. Times (Dec. 8, 2011), http://articles.latimes.com/2011/dec/08/sports/la-sp-lakers-paul-20111209. There is good reason to believe that Gilbert was as much concerned about the impact of the trade in reducing the Lakers' luxury tax liability, and therefore decreasing the Cavaliers' luxury tax receipts, as about competitive balance within the League. Under the Collective Bargaining Agreement (CBA), luxury tax revenues are divided among non-tax-paying teams, such as Cleveland, with lower payrolls. Larry Coon, *Question 22 Where does the escrow and luxury tax money go?*, NBA Salary Cap: 2011 Collective Bargaining Agreement FAQ (last updated Feb. 18, 2013), http://www.cbafaq.com/salarycap.htm#Q22. Had the Paul trade been consummated, the Lakers would have cut payroll while also acquiring a star guard. Los Angeles would have shed $41 million in salary and luxury taxes in two seasons if the trade had been approved. Mark Medina, *NBA's Rejection of Chris Paul Trade Hurt Lakers in Several Ways*, Los Angeles Times (May 31, 2012), http://articles.latimes.com/2012/may/31/sports/la-sp-ln-la-nbas-rejection-of-chris-paul-trade-hurt-lakers-in-several-ways-20120531. Gilbert's effort to use his position as part-owner of the Hornets to urge Stern to exercise his power as the Hornets' fiduciary to make a ruling that would benefit the Cavaliers presents an obvious conflict of interest. Larry Coon, *Dan Gilbert's Letter Misses the Mark*, ESPN.com (Dec. 9, 2011), http://espn.go.com/nba/story/_/id/7336526/nba-critique-dan-gilbert-letter (Gilbert's logic was as flimsy as his motives were suspect; the Hornets were the least of his concerns, complained instead about Lakers receiving the best player in trade while saving money, not giving up draft picks, and receiving a large trade exception; the luxury tax system is supposed to decrease spending but owners like Gilbert depend on teams like the Lakers to continue to spend as they are accustomed).

6. *Id*. Apparently, these owners were particularly upset because they believed that a prime objective of the recent labor lockout was to limit the ability of large-market teams to leverage small-market teams for star players pending free agency. *See* Associated Press, *Michael Jordan Opposed Chris Paul Deal*, ESPN.com (last updated Dec. 14, 2011, 9:04 PM), http://espn.go.com/nba/story/_/id/7354177/charlotte-bobcats-michael-jordan-opposed-chris-paul-los-angeles-lakers-trade (Michael Jordan—owner of Charlotte Bobcats); Chris Broussard & Marc Stein, *Sources: Teams Revisit Chris Paul Deal*, ESPN.com (last updated Dec. 10, 2011, 4:19 PM), http://espn.go.com/los-angeles/nba/story/_/id/7336597/teams-chris-paul-trade-hopeful-revival-sources-say (Mark Cuban, Dallas Mavericks' owner: "There's a reason that we went through this lockout, and one of the reasons is to give small-market teams the ability to keep their stars and the ability to compete.").That the trade, in fact, would have been beneficial to the Lakers has been seriously questioned. *See* John Hollinger, *Stern Saves Lakers From Themselves*, ESPN.com Insider (last updated Dec. 8, 2011, 11:36 PM), http://insider.espn.go.com/nba/story/_/id/7334000/nba-lakers-better-not-making-chris-paul-trade.

7. For a strong argument that Stern's insistence was suspect, see Larry Coon, *supra* note 5.

8. Houston Mitchell, *Lakers Now: David Stern Explains Why He Blocked Chris Paul Trade*, L.A. Times (Dec. 9, 2011, 10:31 AM), http:lakersblog.latimes.com/lakersblog/2011/12/chris-paul-david-stern.html.

9. Paul had made it clear that he would not sign a contract extension with New Orleans and instead planned to opt out of his contract and become a free agent July 1st. Had New Orleans kept Paul on the team until the end of season, he would have departed without the Hornets receiving anything in exchange for him. (The team's possible alternative to such a departure would have been to negotiate a sign-and-trade deal with a team of Paul's choice, in the same manner as the Phoenix Suns signed and then traded Amare Stoudemire in 2010.).

10. Paul was traded to the Los Angeles Clippers. In return, the Hornets received shooting guard Eric Gordon, center Chris Kaman, forward Al-Farouq Aminu, and the Minnesota Timberwolves' 2012 first-round draft pick. (The Clippers also received two 2015 second-round draft picks from the Hornets.) Stern explained that he preferred the Clippers' offer, as it is was loaded with young players and draft picks. Whatever the benefit to the Hornets, there is no doubt about the positive effects of the trade for the Clippers. *See* Lee Jenkins, *Finally, It's Hip To Be A Clip*, SI VAULT (Jan. 30, 2012), available at http://sportsillustrated.cnn.com/vault/article/magazine/MAG1194180/.

11. If Demps's authority was, in fact, significantly limited and trades were subject to more than cursory review by Stern and Sperling, it would appear to make little sense not to have run the proposed trade by Sperling and the League office so as to avoid the negative fallout from announcement and then invalidation. *See generally* Jonathan Feigen, *Did NBA Commish Lie About Failed Three-team Trade That Involved Rockets?*, HOUSTON CHRONICLE (last updated Dec. 18, 2011, 5:16 PM), http://www.chron.com/sports/rockets/article/Source-NBA-commish-lied-about-failed-three-team-2409742.php (sources tell the *Houston Chronicle* that David Stern's statement that the trade he nixed was never considered a done deal is not true).

12. The players' union (and Chris Paul) expressed dissatisfaction with Stern's pronouncement and suggested possible legal action in response. However, it never indicated what would be the legal grounds for its challenge.

13. Dave McMenamin, *Lamar Odom Dealt to Dallas*, ESPN.COM (Dec. 12, 2011, 12:02 PM), http://espn.go.com/los-angeles/nba/story/_/id/7341952/los-angeles-lakers-lamar-odom-dealt-dallas-mavericks-asking-trade.

14. John Friel, *Lakers Rumors: Los Angeles Front Office Upset with Clippers Chris Paul Trade*, BLEACHER REPORT (Dec. 15, 2011), http://bleacherreport.com/articles/984279-lakers-rumors-los-angeles-front-office-upset-with-clippers-chris-paul-trade.

15. Marc Stein, *Sources: Lakers Pull Out of Chris Paul Talks*, ESPN.com, http://espn.go.com/los-angeles/nba/story/_/id/7340640/los-angeles-lakers-pull-trade-talks-chris-paul-according-sources.

16. *See* Feigen, *supra* note 11.

17. Adrian Wojnarowski, *Teams Still Pushing for Paul Trade*, YAHOO! SPORTS (Dec. 9, 2011, 11:50 AM), http://sports.yahoo.com/nba/news?slug'aw-wojnarowski_chris_paul_lakers_hornets_nba_120811. Officials involved in the trade talks said that there was never an indication from the League office, which was consulted during the negotiations, that Demps did not have authority to make a deal. Several teams negotiating with New Orleans to obtain Paul inquired of the League office and were told Demps had full power to execute a trade. *Id*. The investment made by the teams negotiating the deal is consistent with such an assumption about Demps' authority.

18. J.A. Adande, *Leave It To NBA To Undercut Own Team*, ESPN.COM (last updated Dec. 10, 2011, 3:05 PM), http://espn.go.com/nba/story/_/page/cp3dealhold-111208/quashing-cp3-deal-shows-nba-least-bright. *See* Howard Beck, *On Basketball: N.B.A. and Its Conflicts Cloud Getting Best Deal for Hornets*, N.Y. TIMES (Dec. 13, 2011), *available at* http://www.nytimes.com/2011/12/14/sports/basketball/nba-and-its-conflicts-cloud-getting-best-deal-for-hornets.html?_r=0:

> N.B.A. teams never get equal value when trading superstars. The Nuggets settled for a handful of good players and a draft pick when they sent Anthony to the Knicks. The Utah Jazz received two first-round picks and a highly regarded rookie when they traded Deron Williams to the Nets. Neither deal was a sure thing. Neither team got a certified star in return.

19. Under the present CBA, a team can offer its Bird free agent (from the Larry Bird exception) a five-year agreement with 7.5% raises. Other teams may offer him only a four-year agreement with 4.5% raises. Larry Coon, *Breaking Down Changes in New CBA*, ESPN.COM (last updated Dec. 3, 2011, 9:01 PM), http://espn.go.com.nba/story_/page/CBA-111128/how-new-nba-deal-compares-last-one (new contracts). Moreover, the Larry Bird exception permits teams to exceed the salary cap to re-sign their own free agents at an amount up to the maximum salary. Larry Coon, *Question 25 What are the salary cap exceptions?*, NBA SALARY CAP/COLLECTIVE BARGAINING AGREEMENT FAQ (last updated Jul. 14, 2012), http://www.cbafaq.com/salarycap.htm#Q25.

20. To the extent Commissioner Stern, in fact, was acting simply as the owner of the Hornets and pursuing its interests, his trade assessments would not include consideration of the effect on competitive balance within the League, an effect about which Gilbert and other small-market owners expressed concern. In fact, whether the new CBA lays a foundation for a future in which smaller-revenue teams have more equitable chances to compete for the biggest prize players is questionable.

21. According to some sources, Commissioner Stern, in blocking the Paul trade to the Lakers was motivated in a part by a desire to show the players that they were not going to dictate where teams could trade them. *See* Wojnarowski, *supra* note 17 (a League source stated, "In the end, David didn't like that the players were dictating where they wanted to go, like Carmelo had, and wasn't going to let Chris Paul dictate where he wanted to go."). The issue of player movement was a major factor in the NBA labor dispute that produced a lockout. The owners initially attempted to negotiate significant increased obstacles to player movement, including the inclusion of a "franchise player" designation, akin to the NFL practice, in the CBA. *See* Chad Ford, *Franchise Player Tag in NBA?*, http://espn.go.com/blog/truehoop/post/_/id/24106/franchise-player/tag. While the owners eventually received some concessions, they were insufficient to prevent Chris Paul (and Dwight Howard) from forcing their way from smaller to larger markets even after the new CBA was in place. *See generally* Bennett Corcoran, *James Harden Trade: Why the CBA Accomplished Nothing*, http://bleacherreport.com/articles/1387503-james-harden-trade-why-the-cba-accomplished-nothing.

22. The most publicized, contemporary example of this behavior, of course, was the 2010 decision by LeBron James, Chris Bosch, and Dwyane Wade to move to, or remain with, the Miami Heat, agreeing to play for less than they could have made elsewhere.

23. *See* Russell Scibetti, *Updated: Leagues as Team Owners and Operators*, THE BUSINESS OF SPORTS (Dec. 9, 2011, 9:08 AM), http://www.thebusinessofsports.com/2011/12/09/updated-leagues-as-team-owners-and-operators/ (gigantic conflict of interest).

24. A conflict of interest exists even if no improper act results. The conflict of roles supplies an incentive for improper behavior in some circumstances, and a situation in which a person has a duty to more than one organization creates an appearance of impropriety.

25. *See* MICHAEL DAVIS & ANDREW STARK, eds., CONFLICT OF INTEREST IN THE PROFESSIONS 6-11 (2001).

26. *See* Roy Blount, Jr., *Plight of the Humblebees*, SPORTS ILLUSTRATED, Feb. 20, 2012, at 64:

> A league owning a team is like a country owning one of its political parties. Unless the owner wants to crush all the other teams, neither the team nor its fans will ever believe the owner has its/their interest(s) at heart. Does anyone ever root wholeheartedly for the general good?

27. *See* Sean McAdam, *Get Ready for Another Year of Endless Expos Questions*, ESPN.COM (last updated Mar. 14, 2003, 4:48 PM), http://sports.espn.go.com/mlb/columns/story?id'1507204:

> MLB took control of the [Expos] franchise before last season, inviting inevitable problems. No matter what the Expos did, they—or more precisely,

the remaining 29 owners—opened themselves to charges of conflict of interest. [For example,] [w]hen the Expos…skillfully outmaneuvered other clubs for pitcher Bartolo Colon, there were cries that MLB had orchestrated the deal to help the Expos to win and thus, inflate the value of the franchise.

28. *See, e.g.*, 28 U.S.C. § 455 (2012) (disqualification of justice, judge, or magistrate). The purpose of such recusal, which insures the decision-maker is free of disabling conflicts of interest, is to insure impartiality in the resolution of disputes, to protect the judiciary's reputation, and to maintain public confidence in the fairness of the courts.

29. Interestingly, a conflict of interest is built into the structure of leagues, such as Major League Soccer, that are established as centrally planned, single entity arrangements. Not only does the single entity model undermine entrepreneurial initiative and reduce interest in team ownership, that structure jeopardizes the integrity and therefore the marketability of the league's product. The belief that the outcome of games is determined by the merits of competition is central to the attraction of a league's product, and therefore the prevention of conflicts of interest that might undermine this perception is imperative. However, under an arrangement where all teams are consolidated under one roof, the teams would act as local subsidiaries of the league. Consumers might well suspect the league owner of influencing the rules of the game, and the assignment of players, in order to maximize its profits. That possibility would significantly impair the credibility of the championship race. *See* Helmut M. Dietl, et al., Governance of Professional Sports Leagues—Cooperatives versus Contracts 3-4 (Inst. for Strategy & Bus. Econ., Univ. Of Zurich, Working Paper No. 59, 2007) (league owner possesses strong incentives to distort the championship race as a whole or single games in his favor); Michael J. Cozzillio et al., Sports Law 17, 22-23, 29 (2nd ed. 2007) (hard to imagine passions provoked by traditional sports rivalries such as the Yankees versus the Red Sox where basis for competition is one corporate division against another; traditional league structure characterized by owners' economic independence fuels fan perception of authenticity of contests); Egon Franck, *Beyond Market Power: Efficiency Explanation for the Basic Structures of North American Major League Organizations*, 3 Eur. Sport Mgmt. Q. 221, 227-29, 230-32 (2010) (cost advantages of single entity league come at high price; such model is at odds with signaling genuine competition among teams); Sherwin Rosen & Allen Sanderson, Labor Markets in Professional Sports 4-5 (NBER Working Paper 7573, Feb. 2000), *available at* http://www.nber.org/papers/w7573.pdf (outcomes might appear to be rigged if teams in league were commonly owned and directly coordinated); George G. Daly, *The Baseball Player's Labor Market Revisited*, *in* Diamonds Are Forever: The Business of Baseball 11, 18 (Paul M. Sommers, ed., 1992) (league's legitimacy enhanced by independent ownership of teams and damaged by ownership integration and the potential conflicts of interest such arrangements might involve).

30. Admittedly, when the commissioner rules on these kinds of disputes between other teams, he may affect the fortunes of the league-owned franchise. Yet there the conflict is less pronounced, and dismantling the league's administrative structure would be an unnecessary overreaction. However, recognition of the existence of a conflict even in this circumstance underlines that the best treatment of conflicts, to the extent possible, is to avoid them.

31. *See infra* text accompanying notes 41-55.

32. *See generally* Professional Hockey Corp. v. World Hockey Ass'n, 143 Cal App. 3d 410, 191 Cal. Rptr. 773 (Ct. App. 1983) (franchise representatives on WHA corporate Board of Trustees had fiduciary duty to act for benefit of league as a whole when making decisions about common league goals).

    Whether sports leagues, in fact, are operated for the collective good of the business as a whole has been seriously questioned. Professors Ross and Szymanski have argued that club-run leagues, the typical structure of North American professional sports, may be anticompetitive and contrary to the public interest and that sporting competitions organized by independent unitary entities may be more efficient and beneficial for consumers. Club-run leagues, they demonstrate, suffer from significant operational inefficiencies due to the tendency of these leagues to put the interests of individual clubs above the interest of the league as a whole and the presence of substantial transaction costs that prevent optimal results. *See* Stephen R. Ross & Stefan Szymanski, Fans of the World, Unite! A (Capitalist) Manifesto for Sports Consumers (2008); Stephen F. Ross & Stefan Szymanski, *Antitrust and Inefficient Joint Ventures: Why Sports Leagues Should Look More Like McDonalds and Less Like the United Nations*, 16 Marq. Sports L. Rev. 213 (2006).

33. *See* Michael Wilbon, *Chris Paul Veto: Vindictive and Petty*, ESPN.com (Dec. 9, 2011), http://espn.go.com/espn/commentary/story/_/page/wilbon-111209/david-stern-nba-owners-look-vindictive-petty-veto-chris-paul-trade ("Make no mistake…It's the Lakers and Celtics and the ability of their top executives to make deals decade after decade that not only have kept those franchises at the top of the pyramid but also allowed the NBA to matter as much as it has."). *See generally* Ross & Szymanski (2008), *supra* note 32, at 60-61.

34. James B. Stewart, *Owner as Regulator, Like Oil and Water*, N.Y. Times, Jan. 14, 2012, at B1. Similarly, the Obama administration has political objectives that often conflict with ownership interests. It wants to satisfy unions, promote environmental values and raise employment, all of which may conflict with maximizing returns to taxpayers.

35. *See generally* Bill King & John Lombardo, *League-owned Teams' Headache*, Sports Bus. J. (Feb. 20, 2012), http://www.sportsbusinessdaily.com/Journal/Issues/2012/02/20/Leagues-and-Governing-Bodies/Ownership.aspx (most prominent problem with league ownership is persistent suspicion that the league might favor some teams over others when it came time to make a deal).

36. As noted previously, *supra* note 5, the effort by Cavaliers' owner, Dan Gilbert, to have Commissioner Stern exercise his authority with respect to the Hornets to benefit the Cavaliers is a prime example of the kind of conflict of interest that inheres in the existing structure.

37. *See generally* King & Lombardo, *supra* note 35 (team president suspects that Coyotes' election to be buyers at trade deadline in last two seasons, and make the playoffs both times, had to be an irritant for those who were boxed out. "In Calgary, they're helping fund us so we can compete against them. I'm sure they scratch their heads about that.") More generally, as a league-owned team improves and wins more games, other teams will lose more games, potentially decreasing revenues for those team owners as result of a decision made in the best interest of the league-owned team.

    The owners are conflicted in the sense that they are both seeking a quick return on their investments in the league-owned franchise but at the same time do not want to risk the fortunes of their individual teams. Thus, they want their own teams to do well but also seek the league-owned team to do well enough to increase its value so that they can turn a quick profit on their investments.

38. Ross & Szymanski (2008), *supra* note 32, at 31. This point is related to one reason why the traditional club-run structure of the major North American sports leagues prevents efficient changes that would enhance fan appeal and overall league profitability. Transaction costs—the inability of owners, acting in the perceived best interests of their own teams, to agree on the division of additional profits—hampers the ability to take advantage of efficient business opportunities.

39. As Vincent, invoking the best interests of baseball, had compelled the owners to open spring training camps after the March 1990 32-day lockout, they did not want him around to possibly limit their strategic options for the 1993-94 labor negotiations. Accordingly, they forced his resignation in September 1992.

40. Over the years in Congressional testimony it was common for baseball owners to assure Congress that it need not concern itself with baseball's unique exemption from the antitrust laws nor with any need for outside regulation because the independent commissioner would act to protect consumers from potential abuses and look after the game's best interests. With the appointment of Selig, any pretense of independence from the owners was dropped. The reasonable assumption that the best interests of baseball would now be more perfectly aligned with the best interests of the owners presumably influenced the thinking of the players' union as well.

    Indeed, while this article's focus is on the league and its members, league takeover of a franchise may have significant effects on another institutional actor, the players' representative. Does league ownership of a team raise distinctive concerns from the perspective of a union? In the case of MLB's purchase and operation of the Expos, the Major League Baseball Players Association (MLBPA) was principally wary of the possible facilitation of collusion in the bidding for free agents.

41. The Brewers did not prosper as a team during the 1990s, and some people suspected that it suffered from lack of attention. Michael Megna, for example, a sports franchise appraiser who worked for the Brewers, stated, "Selig was trying to wear too many hats and was too ambitious." Bruce Murphy, *Storm Warnings*, Milwaukee Magazine, April 1996, at 42, 45.

42. *E.g.*, Associated Press, *"It's Really Horrifying," Selig's Brewers Received $3 Million Loan from Pohlad's Firm*, SI.com (Jan. 8, 2002), http://sportsillustrated.cnn.com/baseball/news/2002/01/08/selig_pohlad_ap?.

43. Major League Baseball Rules, Rule 20(c) (2012):

    > **Loans to Clubs and Other Individuals**. No Club, or owner, stockholder, officer, director or employee (including manager or player) of a Club shall, directly or indirectly, loan money to or become surety or guarantor for any Club, officer, employee or umpire of its, his or her League, unless all facts of the transaction shall first have been fully disclosed to all other Clubs in that League, and also to the Commissioner, and the transaction has been approved by them.

44. That there was any impropriety in the transaction, in fact, is unlikely. The loan was a short-term bridge accommodation at one and a half points above the prime rate that was paid off in three months. Bob Nightengale, *Selig Stands in Against High Heat*, USA Today (Jan. 15, 2002), *available at* http://www.usatoday.com/sports/bbw/20002-01-16-majors.htm.

45. Elimination of teams, which proved an abortive exercise in 2001, was a notion largely unimagined in the major professional sports leagues in modern times until then.

46. For an instance of contemporary criticism of the proposed contraction as an example of compromised decision-making, see Rob Dibble, *An Open Letter to Bud Selig*, ESPN.com (Dec. 6, 2001), *available at*: http://espn.go.com/talent/danpatrick/s/20001/1119/1280454.html ("you have often made decisions that have benefitted the Brewers and their interests alone"); George Vecsey, *Sports of the Times: Twins Should Outlast Selig*, N.Y. Times Jan. 9, 2002, at D1 (relation between baseball commissioner and Twins' owner is "rotten"; Selig should step aside as commissioner).

47. The absence of a payroll rule contrasts sharply with the arrangement in the NBA where the CBA requires a minimum payroll for each team. There the League's revenue-sharing system establishes a floor as well as a ceiling on each team's payroll. That minimum amount of spending is close to the cap amount. *See* Larry Coon, *Question 15 Is there a minimum amount each team must pay its players?*, NBA Salary Cap/Collective Bargaining Agreement FAQ (last updated Jul. 14, 2012), http://www.cbafaq.com/salarycap.htm#Q15. This provision manifests the recognition that a requirement that teams which have been spending too little on talent spend more is just as necessary to the quality of the game as is the requirement that teams which have been over-spending cut back. Stipulation of a minimum payroll can guarantee that smaller-market teams do not free ride from large-market revenues by disposing of talented players in favor of cheap, low-quality labor.

48. 2003-2006 Agreement between Major League Clubs and the Major League Baseball Players Association, art XXIV, at 106, *available at* http://www.steroidsin baseball.net/cba/cba_02_06.pdf.

49. Andrew Zimbalist, In the Best Interests of Baseball? 200 (2006); Stefan Szymanski & Andrew Zimbalist, National Pastime: How Americans Play Baseball and the Rest of the World Plays Soccer 179-81 (2005); Andrew Zimbalist, *No Reason To Break Up the Yankees*, *in* The Bottom Line: Observations and Arguments on the Sports Business 112-13 (2006).

50. Zimbalist (2006), *supra* note 49, at 200-01. Another troubling episode involved application of MLB's 60/40 rule. That rule required teams to maintain a ratio of at least 60% equity to at most 40% debt. The Brewers often struggled to comply with the rule. A Wisconsin state legislative audit of the period from 1994 to 2003 found that the Brewers did not meet the 60/40 standard in seven of those 10 years. The audit noted that enforcement of the rule was suspended from 1994 to 1998 by Selig, the acting commissioner who also owned the Brewers. John Helyar & Scott Soshnick, *Selig Bends Rules To Fit as Baseball Attempts To Oust McCourt from Dodgers,* Bloomberg, Oct. 24, 2011, *available at*: http://www.bloomberg.com/news/2011-10-24/selig-bends-rules-to-fit-as-baseball-attempts-to-oust-mccourt-from-dodgers.html.

51. *See* Thomas Boswell, *After All the Wrongs, Selig Could Be Mr. Right*, Washington Post, July 10, 1998, at C1:

    > Conflict of interest? What conflict of interest? Didn't you hear? Bud's going to put the Brewers in a trust and have his daughter run the day-to-day operations. That'll solve it. If the best interests of baseball are on one side and the best interests of ownership—or the Brewers specifically—are on the other side, Selig will be completely objective, right? He'll just shaft his daughter. No problem.
    >
    > Obviously, it's just as inappropriate for Selig to be commissioner on Friday as it was on Wednesday. A…promise to put the team in a trust doesn't change anything.

    See also Bud Selig, NNDB: Tracking the Entire World (last visited Dec. 24, 2012), http://www.nndb.com/people/226/000025151/ ("Selig's impartiality as Commissioner was questioned, but not nearly enough. Putting an owner in charge of baseball's integrity was like asking a team's catcher instead of an umpire to call balls-and-strikes.").

52. As a well-known commentator put it, in expressing his serious skepticism about the trusteeship's effect on conflicts of interest:

    > If I am the Tribune Corporation, I am not sure that I want Selig invalidating a trade the Cubs make with the Mets or upholding a player's suspension.

    Andrew Zimbalist, *This Bud's for a Salary Cap*, *in* The Bottom Line: Observations and Arguments on the Sports Business 178-79 (2006).

53. National Basketball Association Constitution and By-Laws §24(b); National Football League Constitution and By-Laws art. VII, § 8.3; Constitution of the National Hockey League art. VI, § 6.2. While Selig is the first contemporary figure to own a major league sports team while at the same time holding ultimate authority over all aspects of the sport, precedent for a person holding multiple ownership-executive roles exists in the early history of baseball.

Thus, William Hulbert was designated president of the National League of Professional Baseball Clubs in 1877 while he was the president of the Chicago White Stockings, and he served in both positions until his death in 1882. HAROLD SEYMOUR, BASEBALL: THE EARLY YEARS 77-84 (1960). Similarly, when the agreement between the American and National Leagues in 1903 resulted in the formation of the National Commission to administer the realigned structure of organized baseball, Gary Herrmann, the Cincinnati Reds' owner, was chosen to be chairman of the three-member board. HAROLD SEYMOUR, BASEBALL: THE GOLDEN AGE 9 (1971).

54. National Basketball Association Constitution and By-Laws §24(d)(h)(i).

55. In the case of disciplinary matters, it is not uncommon for the CBA to provide that an appeal from a commissioner's disciplinary ruling will be heard by the commissioner or his designee. *See*, *e.g.*, COLLECTIVE BARGAINING AGREEMENT BETWEEN NFL MANAGEMENT COUNCIL AND NFL PLAYERS ASSOCIATION art. 46, § 2(a) (2011); COLLECTIVE BARGAINING AGREEMENT BETWEEN NATIONAL BASKETBALL ASSOCIATION AND NBA PLAYERS ASSOCIATION art. XXXI, § 8(a) (2005).

56. *See*, *e.g.*, Mitchell v. Metropolitan Life Ins. Co., 2002 U.S. Dist. LEXIS 4675 (S.D.N.Y. 2002); Decora Inc v. DW Wallcovering, 899 F. Supp. 132 (S.D.N.Y. 1995); Cheng v. GAF Corp., 631 F.2d 1052, 1058 (2d Cir. 1980) (court not convinced ethics screen would be effective in small law firms). William Freivogel, *Changing Firms "Screening" Part I*, FREIVOGEL ON CONFLICTS (last updated Sep. 25, 2012), http://www.freivogelon conflicts.com/changingfirmsscreeningparti.html.

The Model Rules of Professional Conduct recognize a principle of "imputed" disqualification. *See* MODEL RULES OF PROF'L CONDUCT R. 1.10(a). Under this notion, if lawyers are associated in a firm and one of the lawyers—who has moved from another firm—is disqualified from handling a matter, that disqualification is imputed to bar all members of the firm. One mechanism firms have employed in an effort to avoid this result is to screen the disqualified lawyer from any involvement in the matter. Screening involves preventing the disqualified lawyer from securing profits from the matter that created the conflict, limiting his or her access to the files of the matter that created his or her disqualification, and restricting communications between the lawyer and the others in the firm working on the matter that created the conflict. Historically, the screening approach has elicited mixed judicial reaction. *See* FREIVOGEL, *supra*; *see also* RESTATEMENT (THIRD) OF THE LAW GOVERNING LAWYERS §124(2) (2000). However, courts may well evidence more receptivity to this approach in light of the ABA adoption in 2009 of a new version of Rule 1.10(a) that permits timely screening as a way to avoid imputed disqualification as long as notice requirements are met. *See*, *e.g.*, Silicon Graphics, Inc. v. ATI Technologies, Inc., 741 F. Supp. 2d 970 (W.D. Wis. 2010); RONALD D. ROTUNDA & JOHN S. DZIENKOWSKI, PROFESSIONAL RESPONSIBILITY 532-33 (2011).

57. *See* Devika Kewalramani, *Ethical Walls: Building the Electronic Barrier*, 84-FEB N.Y. ST. B.J. 30, 32 (2012) (firm size: small is worse). *See generally* Comment, *The Chinese Wall Defense to Law-Firm Disqualification*, 128 U. PA L. REV. 677, 708 and n.146 (1980) (financial institutions suffer from possibly irremediable defects; if bank or firm is small so that the same employees perform diverse functions, it may be impossible to build a wall).

58. *See* Erving v. Virginia Squires Basketball Club, 468 F.2d 1064 (2nd Cir. 1972)*; see also* Morris v. New York Football Giants, Inc., 575 N.Y.S.2d 1013 (N.Y. Sup. Ct. 1991) (in compensation dispute between professional football players and their former teams an unaffiliated arbitrator should be substituted for the NFL Commissioner in order to insure an impartial hearing). *But see generally* National Hockey League Players' Association v. Bettman, 1994 U.S. Dist. LEXIS 21715 (S.D.N.Y. 1994) (award by league commissioner not to be vacated for "evident partiality" when CBA assigned the kind of dispute solely to the league president/commissioner for resolution).

59. One difference between the two situations is that the NBA Commissioner would not stand to receive a personal benefit from his ruling.

60. *See generally* DAVIS & STARK *supra* note 25, at 13 (one possible response to conflict is escape; one way to escape a conflict of interest is to redefine the underlining relationship; recusal by prosecutor).

61. Disclosure, unlike escape, as a response to a conflict of interest does not terminate the conflict. It just avoids betrayal of trust, opening the way for other responses. *Id*.

62. When firms provide a wide range of services, clients must be able to trust that information about themselves will not be exploited for the benefit of clients with different interests. Accordingly, clients must be able to believe in the effectiveness of Chinese walls.

63. Similarly, research and investment banking units are separated so that analysts are not tempted to provide biased research reports in response to pressure from the investment bankers. The objective of the arrangement is to maintain analysts' independence by eliminating, or at least reducing, the conflict between the interests of the investment banking unit and those of the investors who rely on analysts' recommendations.

64. *See supra* text accompanying note 55 and note 61. This contrivance is sometimes referred to as a "cone of silence."

65. This approach is not unusual. In other industries parties avoid conflicts by seeking individuals with independent judgment in situations in which their own judgment is compromised. For example, in financial services independent persons include independent appraisers in ascertaining the value of assets in cases of self-dealing, and independent actuaries in the operation of corporate pension funds. DAVIS & STARK, *supra* note 25, at 11, 235.

66. *See generally* Bolkiah v. KPMG, [1998] EWHC (Ch.) 1, [1999] B.C.L.C. 1, NICH. (difficulty with Chinese walls is that while they are well adapted to deal with foreseeable disclosure of information, they are not well adapted to deal with disclosure that is accidental, inadvertent, or negligent).

67. *See*, *e.g.*, H. Nejat Seyhun, *Insider Trading and the Effectiveness of Chinese Walls in Securities Firms*, 4 J.L. Econ. & Pol'y 369 (2008) (study suggests that Chinese walls are porous and ineffective); Christopher M. Gorman, *Are Chinese Walls the Best Solution to the Problem of Insider Training and Conflicts of Interest in Broker-Dealers*?, 9 FORDHAM J. CORP. & FIN. L. 475, 476, 490-91 (2004) (Chinese walls are inefficient, largely ineffective, and have more shortcomings than advantages; walls are more successful in preventing accidental flow of inside information than in preventing purposeful misconduct and conspiracies to share inside information). *See also* Lee Aitken, *"Chinese Walls" and Conflicts of Interest*, 18 MONASH U. L. REV. 91, 93 (1992) (in context of law firms, good grounds for judicial reluctance to trust to the impermeability of "wall" as method of preserving confidence and avoiding conflict); Comment, *supra* note 57, at 708 (large amounts of money in transactions may present temptations too great to resist; structural, procedural, and educational methods may be no match for natural tendency of co-workers to talk shop at company-wide social gatherings or in chance encounters).

68. In the case of law firm conflicts courts have considered the timeliness of erection of the screen in passing on its effectiveness in responding to the conflict of interest. *See*, *e.g.*, Chinese Automobile Distributors of America v. Bricklin, 2009 WL 47337 (S.D.N.Y. 2009), Kewalramani, *supra* note 57 (importance of prompt implementation of the screen).

69. In the financial sector Chinese walls are partly unsuccessful because of the absence of strong incentives for broker-dealers to establish and supervise compliance with them. Gorman, *supra* note 67, at 493. One drawback of the firewall approach is that it eliminates some of the gains from integrating different functions in one firm, and financial firms may lose the confidence of customers,

who fear, for example, that investment advice does not reflect all the information possessed by a firm. Davis & Stark, *supra* note 25, at 235. This concern, however, does not apply to the NBA situation.

70. The required leadership is unlikely to emerge in MLB in light of its inattention to conflicts issues over time. *See supra* text accompanying notes 39-53 and notes 39-53.

71. According to Larry Coon, ESPN Insider, Stern's intervention in the Chris Paul trade was his greatest failure as Commissioner. *See David Stern, the Highs and Lows*, ESPN.com (Oct. 26, 2012), http://espn.go.com/nba/story/_/page/5-on-5-121026/nba-david-stern-impact-legacy-road-ahead.

72. *See supra* note 47. For the 2012-13 season the minimum team payroll is 85% of the salary cap ($49.337 million). If a team does not meet its minimum payroll, it is charged at the end of the season for the shortfall, and that money is distributed among the players on that team. *See also* Collective Bargaining Agreement Between National Hockey League and National Hockey League Players' Association art. 50 (2005) (team payroll range, lower limit and upper limit).

73. *See*, *e.g.*, Les Carpenter, *Minaya Laid Foundation for Success*, The Washington Post (Jul. 4, 2005), http://washington post.com/wp-dyn/content/article/2005/07/03/AR2005070301106.html. MLB's oppositional behavior in 2003 stood in sharp contrast to the league's handling of the Expos in the prior year. Then it appeared that Tony Tavares, President of the Expos, and General Manager Omar Minaya had full authority to run the team and Minaya had authority to execute trades. Indeed, Minaya's signature move, the acquisition of Bartolo Colon, came as a surprise to everyone in the league, suggesting that the commissioner was unaware of the negotiations and completed deal. *See* Jonathan Leshanski, *Expos-ing the True Story*, http://old.athomeplate.com/montrealpt1.shtml; *Blockbuster Deal*, http://sportsillustrated.cnn.com/baseball/news/2002/06/27/indians_expos_trade-ap/. The trade, though, ignited negative reaction among the owners, who viewed themselves as both subsidizing and in competition with the Expos.

74. *See*, *e.g.*, Jonah Keri, *Building the 2004 Expos*, ESPN. Com (Dec. 8, 2003), http://sports.espn.go.com/mlb/columns/story?id'1681258. MLB's unappealing handling of the Expos' operations points to an efficiency difficulty, in addition to the conflict of interest issues. That difficulty is the increased transaction costs incurred when other league members wish to have input on any significant decision about the operation of the league-owned team. The NBA showed an awareness of this problem in the case of the Hornets in that it was decided by various committees and the Board of Governors that the league office would make the decision on what was good for the Hornets. *See* Chris Fedor, *David Stern Says That Once the Season Starts, Everyone Will Forget About That Silly Little Chris Paul Trade Veto*, Deadspin (Dec. 21, 2011, 10:25 PM), http://deadspin.com/5870206/david-stern-says-that-once-the-season-starts-everyone-will-forget-about-that-silly-little-chris-paul-trade-veto.

75. With respect to the NHL and the Phoenix Coyotes, it appears that no formal measures were put in place designed to prevent or mitigate conflicts of interest and guarantee autonomy in the operation of the team. However, the league was concerned about continuity of administration and deliberately maintained the existing General Manager, Don Maloney, in that position. No visible, publicized conflicts occurred. In any case, the league's focus was on stabilizing the team's finances as the team was losing large amounts of money due to an unsatisfactory venue agreement. Further, whatever the walling off with respect to day-to-day management, Commissioner Gary Bettman was intimately involved in the negotiations with the city of Glendale about restructuring the arena lease.

More precisely, before each season the league provided Maloney with a set budget for the season. Maloney could spend an amount between that number and the salary cap floor. With respect to trades, the team employed a dollar-for-dollar system under which all trades had to even out monetarily. Trades involving additional salary required league approval. These arrangements permitted the team to operate somewhat independently of the league. Former players, however, have said that they thought the league was dictating to the team about appropriate contract length and funds. E-mail from Jaime Eisner, Assoc. Ed., Five for Howling Blog, to Lewis Kurlantzick (Jan. 29, 2013, 04:46 EST) (on file with author).

76. Feigen, *supra* note 11.

77. Davis & Stark, *supra* note 25, at 11.

78. For example, when MLB acquired the Montreal Expos in February 2002, it agreed to a one-year stadium lease with an option for a second year, evidence that the owners had no intention of keeping the team in Montreal for the long term. In fact, the Expos remained in Montreal under MLB ownership for three years.

This intention creates problems for team management, in that a long-term operational plan is not put in place. Team executives cannot make decisions based on the kind of long-term strategic plan of a team that projects its payroll cycle out for three or five years. Further, often the best way to produce a short-term profit is to reduce costs, whereas long-term profit may be more sustainable by investing in the team's operations. Since the other owners are likely to care only about the short term, those in charge of the league-owned franchise may be led to cut costs. *See* Russell Scibetti, *What Happens When a League Becomes the Team Owner?*, Business Insider (April 28, 2011), http://www.businessinsider.com/leagues-as-team-owners-and-operators-2011-4. Moreover, business partners and fans are unlikely to fully embrace a franchise as long as its future is uncertain, and league management equals future uncertainty. King & Lombardo, *supra* note 35.

79. One principle of our contract law is that courts generally do not second-guess the terms of a deal. It is for the parties to fashion the bargain. *See*, *e.g.*, Restatement (Second) Contracts §79 (1981).

80. Finley v. Kuhn, 569 F.2d 1193 (6th Cir. 1978). An obvious other claim that might have been raised in these circumstances was that Kuhn's action violated the antitrust laws. However, Finley did not raise this claim, presumably because of the peculiar antitrust "exemption" that the business of baseball enjoys.

81. Larry Coon, *Question* 94, NBA Salary Cap/Collective Bargaining Agreement FAQ (last updated Jul. 14, 2012 http://www.cbafaq.com/salarycap.htm#Q94. There are two separate ceilings, one aimed at the cash a team pays as part of trades each season, and the other at cash a team receives as part of trades each seasons. The NHL prohibition is more restrictive. *See* Collective Bargaining Agreement Between National Hockey League and National Hockey League Players' Association, arts. 11.16, 50.9(e) (2005) (there shall be no cash transactions in connection with the assignment of players).

82. That these restrictions on cash transfers in fact serve the collective interest is hardly as clear as might be supposed. Professor Daly views the limitations as necessary to preserve public confidence in the integrity of competition on the playing field. *See* Daly, *supra* note 29, at 18, 24. However, prior to Kuhn's intervention, there was a long history of cash sales in all sports leagues. So it is curious as to why cash sales would raise issues about integrity only in the mid-1970s and not earlier. Rodney Fort & James Quirk, *Cross-subsidization, Incentives, and Outcomes in Professional Team Sports Leagues*, 33 J. Econ. Lit. 1265, 1282-83 (1995). More fundamentally, Professor Ross has argued persuasively that cash transactions can potentially benefit the less financially secure teams and facilitate more efficient allocation of players, thereby serving the collective league interest. *See*, *e.g.*, Stephen F. Ross, *The Effect of Baseball's Status as a Legal "Anomaly and Aberration*," *in* Legal Issues in Professional Baseball 215, 254-58 (Lewis Kurlantzick ed., 2005); Stephen F. Ross, *Light, Less-Filling, It's Blue-Ribbon*, 23 Cardozo L. Rev. 1675, 1692-96 (2002). For a similar criticism of the 2005 NHL CBA's prohibition of the inclusion of cash as a trade asset, *see Allow NHL Teams To Trade Cash*, The Offer Sheet (Jul. 24, 2012), http://theoffersheet.com/2012/07/24/allow-nhl-teams-to-trade-cash/.

83. At the extreme, a team needs other teams to play against. Other competitors are required to produce a competition.

This interdependence provides justification for measures, such as the financial and reputational screening of prospective owners, that would appear strange and perhaps illegal if employed in a conventional industry. Thus, imagine a Widget Czar passing on the purchase and sale of a widget company.

84. Stepien owned the Cavaliers from 1980 to 1983. He made a habit of trading future draft choices for mediocre players and compiled a record of 66-180 during his tenure. Concerned about the devaluation of the franchise, in 1981 Commissioner Larry O'Brien informed the Cavaliers that for a period of time the team had to receive League approval before making any trades. Thomas Rogers, *NBA To Take Role in Cavaliers' Trades*, N.Y. TIMES, June 30, 1981, at A21.

85. National Basketball Association By-Laws §7.03: "No Member may sells its rights to select a player in the first round of any NBA Draft for cash or its equivalent, or trade or exchange its right to select a player in the first round of any NBA Draft if the result of such trade or exchange may be to leave the Member without first-round picks in any two (2) consecutive NBA Drafts.

86. Chris Mannix, *Gasol Trade Sparks War of Words: Popovich Pops Off on Grizzlies' Controversial Swap*, SI.COM (last updated Feb. 9, 2008, 12:00 PM), http://sportsillustrated.cnn.com/2008/basketball/nba/02/08/popovich.grizzlies/index.html.

87. In most other industries where companies have considerable market power and are publicly traded, inefficiently run corporations are subject to hostile takeovers by those who think the company's value would increase with new management. Most sports teams, though, are not publicly traded corporations. As a result, there is no market means to replace an incompetent owner. Ross (2002), *supra* note 82, at 1701-02. ROSS & SZYMANSKI (2008), *supra* note 32, at 20-21:

If clubs had to maintain a high level of competitiveness to remain in the major leagues, one of two things would surely happen: either the incompetent owner would be forced to sell his team, or his club would exit the league and fans could turn elsewhere.

88. The NBA's action with respect to Ted Stepien might be viewed as a minor example to the contrary, though it does not rise to an instance of League discipline of an owner for mismanagement.

89. *See* Richard Hoffer, *The Loss Generation*, SI VAULT (Apr. 17, 2000), http://sportsillustrated.cnn.com/vault/article/magazine/MAG1018959/index.htm (chronic incompetence; Clippers are the most losing team in history; virtually uninterrupted ineptitude). Over most of the period of his ownership, Stirling has refused to invest in the team, content to receive revenues that just come from showing up to play another NBA team each night during the regular season.

As noted previously, see *supra* note 32, Professors Ross and Szymanski have argued that the interests of consumers, including a lack of tolerance for inept management, would be better served if sporting competitions were organized by an independent unitary entity rather than by a club-run league.

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What Non-U.S. Athletes, Entertainers, and Agents Need to Know About U.S. Taxes and How to Reduce Them

By Robert S. Fink and Wilda Lin

Introduction

Boxing fans who were looking forward to Manny Pacquaio's fifth fight against Juan Manuel Marquez did not see it live in Las Vegas. The reason? Taxes. The Filipino boxer-actor-singer-politician reportedly refused to submit to recent U.S. federal income tax increases, which would drain millions of dollars from his take-home pay.[1] He may have also been aware that foreign athletes and entertainers performing in the United States receive a great deal of attention from a most unwanted source: the Internal Revenue Service (IRS). Unfortunately for these individuals, the IRS has created an Issue Management Team that is "focused on improving U.S. income reporting and tax payment compliance by foreign athletes and entertainers who work in the United States."[2]

From tax enforcement perspective, having a foreign nationality and a career in sports and/or entertainment are a toxic combination. As an initial matter, foreigners of any profession often do not know what their tax obligations are or how to fulfill them. To make matters worse, athletes and artists frequently travel among various countries (i.e., tax jurisdictions) to participate in tours and competitions, thereby raising questions regarding residence for tax purposes. Some command very high salaries, royalties, or other payments while incurring significant business expenses; this financial situation may arouse suspicion of inappropriate deductions resulting in allegedly understated taxable income and lost tax revenue. Finally, celebrity athletes and entertainers of any nationality capture media attention, making them particularly attractive targets when the IRS decides to send the public a message of deterrence. Few have forgotten Wesley Snipes, who was in prison for failure to file tax returns until his release in April.[3] Brazilian race car driver Hélio Castroneves, along with his business manager and tax attorney, managed to avoid prison but endured a federal grand jury investigation, an indictment for tax evasion and conspiracy to defraud the government, and a lengthy trial before being acquitted by a jury.[4] Famed Mexican boxer Julio César Chavez, while not charged with any tax crime, reportedly underwent an IRS audit that resulted in a tax deficiency and tax lien of over $12 million.[5] More recently, in March 2013, the U.S. Tax Court found Spanish golfer Sergio "El Niño" Garcia liable for additional taxes on his royalty income for 2003 and 2004—although not the $1.7 million alleged by the IRS.[6]

U.S. tax laws are notoriously complex and riddled with traps for the unwary. The IRS's heightened scrutiny of foreign athletes and entertainers should propel these individuals to enlist a guide to navigate tax issues when contemplating any performance in, or transaction relating to, the United States. Skilled U.S. tax counsel can help foreign taxpayers not only stay out of trouble with the IRS but also save money by engaging in tax-efficient planning. The unhappy foreign taxpayer who forgoes proper tax planning only to receive a letter or visit from the IRS should immediately retain tax counsel—before any further communication with the IRS—to represent him or her in the course of any examination or other inquiry.

Tax Residence

Complying with the law first requires knowing which set of rules applies to the situation. For individuals, there are two basic tax[7] regimes: one for U.S. citizens and residents, and one for everyone else (known in tax parlance as nonresident aliens, or nonresidents). U.S. citizens and residents are generally subject to tax on their worldwide income.[8] Nonresidents, on the other hand, are subject to tax only on certain income from U.S. sources, as well as on income from non-U.S. sources that are "effectively connected with the conduct of a U.S. trade or business."[9] Thus, the first step in identifying anyone's tax obligations is to determine his or her tax residence.

Tax residence is a tricky business. The IRS may consider someone a resident of the United States for tax purposes regardless of where he or she calls home. To complicate matters further, U.S. residence as determined under tax law bears some relation to, but differs from, U.S. residence as determined under immigration law.

The Internal Revenue Code[10] and Treasury Regulations define a United States person for U.S. federal income tax purposes (a U.S. tax resident) as a citizen or resident of the United States.[11] U.S. citizens, therefore, are U.S. tax residents no matter where they live and without need for further inquiry. This leaves the murkier question of what constitutes a "resident of the United States." A non-U.S. citizen will be treated as a "resident of the United States"—and therefore a U.S. tax resident—if he or she satisfies any one of the following three tests:

1. He or she is a lawful permanent resident of the United States (i.e., holds a "green card") at any time during the calendar year.[12]
2. He or she is "substantially present" in the United States, meaning physical presence in the United States for at least 31 days during the current year and at least 183 days for the current and past two years combined, with each day of presence during the current year counting as one day, each day

of presence during the preceding year counting as 1/3 day, and each day of presence during the second preceding year counting as 1/6 day.[13]

3. He or she elects to be treated as a U.S. resident for the calendar year.[14]

A number of exceptions apply. For example, a green card holder would normally be treated as a U.S. tax resident. However, in some cases, an individual may be a "resident" of both the United States and his or her home country according to the internal tax laws of each country. In those instances, the tax treaty between the two countries (assuming one exists) provides a cascading set of tiebreaker rules to determine his or her residence for purposes of the treaty.[15] If the green card holder were determined to be a tax resident of his or her home country under the relevant treaty, that individual could avoid treatment as a U.S. tax resident by making an election and filing the relevant tax form and tax return each year.[16] Under another exception, an individual who is substantially present in the United States would normally be treated as a U.S. tax resident; however, he or she could avoid being so treated if he or she were present in the United States for no more than half of the current year and filed the proper form establishing a closer connection[17] to his or her home country.[18] Finally, some individuals, including certain teachers, students, and professional athletes who file the proper forms,[19] may exclude days that would otherwise count towards "substantial presence" in the United States.[20]

The case of the green card holder above illustrates how the existence of a tax treaty can affect one's tax residence. Tax treaty analysis is an important component of tax planning because treaties may provide relief where an individual would be taxed twice on the same income by both the United States and another country. Furthermore, some tax treaties provide that certain athletes and entertainers are exempt altogether from U.S. tax if their incomes from performing in the United States remain below a threshold amount.[21] In order to determine whether an individual may invoke treaty benefits, one must first determine the individual's country of residence as defined by the terms of the applicable treaty. Again, where an individual is a resident of two countries according to their internal tax laws, the relevant treaty's tiebreaker rules will determine his or her residence for purposes of that treaty.[22]

Source of Income and Expenses

As described above, U.S. tax residents are subject to tax on their worldwide income, while nonresidents are subject to tax only on U.S. source income and non-U.S. source income effectively connected with the conduct of a U.S. trade or business. Therefore, a foreign athlete or entertainer who is a nonresident must determine the sources of his or her income and expenses. The source of income depends on the type of income received. For example, compensation for personal services is sourced to where the services were performed;[23] if the services were performed in more than one country, the compensation is allocated to the countries on a time spent basis.[24] Royalties are sourced to where the property or right is used.[25] Interest income is sourced according to the residence of the payor;[26] similarly, dividends are sourced by the residence of the payor corporation.[27] Income from the sale of real property is based on where the property is located,[28] whereas income from the sale of personal property is generally based on the residence of the seller.[29]

Expenses are allocated to the appropriate class of income as described above. They are then apportioned between U.S. source and non-U.S. source based on any reasonable method, such as gross sales, gross income, or units sold.[30] These methods can produce vastly different tax results, and U.S. tax counsel should analyze a foreign taxpayer's specific situation to determine which would be most favorable.

Payment and Withholding

U.S. tax residents generally pay tax through a combination of withholding at the source and direct payment to the IRS. The ability to pay any additional tax due when filing tax returns reflects the assumption that U.S. tax residents who presumably live, work, and have family and friends in the United States are less likely to run afoul of their payment obligations than are nonresidents. The IRS loses much of its ability to enforce tax payment in the case of nonresidents who may have long left the U.S. by tax season. The United States has addressed this concern by passing collection responsibility onto the U.S. taxpayers who pay the nonresidents.

Payment of a nonresident's tax is generally achieved through withholding. In most cases, any U.S. taxpayer who pays U.S. source income to a nonresident must deduct and withhold 30% of such payment, and then turn over the withheld amount to the government.[31] The U.S. payor may forgo or reduce this withholding obligation if the nonresident payee is a resident of a country that has a tax treaty with the United States, the treaty provides for reduced withholding, and the payor receives certain forms from the nonresident payee entitling him or her to such reduced (or eliminated) withholding.[32]

"Central withholding agreements"[33] (CWAs) can make tax payment obligations of foreign athletes and entertainers more streamlined and efficient. This procedure creates a single withholding agent for multiple U.S. source payments, and allows for a reduced amount of withholding. As described earlier, nonresidents are subject to tax on U.S. source income, as well as non-U.S. source income that is effectively connected with the conduct of a U.S. trade or business, which may include the performance of personal services, within the United

States.[34] Generally, certain types of U.S. source income, such as interest, dividends, rents, salaries, wages, and compensation, are taxed at a flat 30% rate of gross income, unless reduced by an applicable tax treaty, with no deductions allowed.[35] In contrast, income that is effectively connected with the conduct of a trade or business in the United States is subject on a net basis[36] to the same graduated rates that are applicable to U.S. taxpayers.[37] This difference can significantly alter the amount of net income that a foreign athlete or entertainer receives upon payment.

In general, each payor of U.S. source income must withhold 30% of the gross payment to a nonresident for personal services, and the nonresident is subject to a flat 30% tax rate on gross income. Based on this rule, a foreign athlete receiving $1 million a year for the performance of services in the United States would have $300,000 of that amount withheld and paid over to the IRS by the withholding agent in satisfaction of the flat 30% tax rate, and would receive the remaining $700,000 from the various payors. He or she might have spent $500,000 on lodging, transportation, equipment, professional services, and other expenses. The 30% tax rate that was withheld on gross income, combined with the expenses, would leave the athlete with $200,000 ($1 million gross income – $300,000 withholding – $500,000 expenses = $200,000). However, if that athlete's services were deemed to be effectively connected with the conduct of a trade or business in the United States, that income would be subject to the top marginal rate of 39.6% on net income (i.e., deducting the $500,000 of expenses *before* applying the various marginal rates). His or her ultimate tax liability would be $161,700 thereby leaving the athlete with $339,300 rather than $200,000. In the latter instance, if there were withholding at 30% of gross income, the athlete has overpaid taxes. To recover the lost funds, he or she would need to file an IRS Form 1040NR in the following year to claim a refund of the difference.

Alternatively, the foreign athlete could arrange for a CWA before arrival in the United States. The CWA would allow the central withholding agent first to deduct estimated expenses, and then to withhold at the graduated withholding rates rather than at the 30% rate. This procedure allows the nonresident to reduce the amount of withholding on each payment so that it more closely matches his or her actual tax liability, rather than imposing the burdens of substantial over-withholding coupled with having to seek a refund in the following year.

Filing Obligations

U.S. tax residents with worldwide income[38] equal to or greater than the exemption amount must report that income on their annual tax returns.[39] Nonresidents must file tax returns if they are engaged in a trade or business within the United States at any time during the taxable year, or if they have any taxable income that was not fully satisfied through withholding.[40] As discussed previously, they also may choose to file tax returns, even if not required to do so, in order to claim refunds in the case of over-withholding. Similarly, nonresidents may voluntarily file tax returns to report tax payments in other countries, which could generate foreign tax credits and correspondingly reduce their U.S. tax liabilities.

In addition to tax returns, each "United States person" who—broadly speaking—owns or has certain types of control over bank, securities, or other financial accounts with an aggregate value of over $10,000 in one or more foreign countries, must report each foreign account each year on TD F 90-22.1, Report of Foreign Bank and Financial Accounts (the FBAR).[41] This little-known FBAR filing requirement has received significant attention in recent years, after the IRS summoned foreign banks demanding the identification of thousands of noncompliant U.S. account holders. U.S. tax residents are among those required to file FBARs.[42] Failure to do so can produce disastrous consequences, as described below.

Penalties

Improper reporting and filing can generate substantial civil and criminal penalties. Incorrect reporting of income can result in an accuracy-related civil penalty in the amount of 20% of any underpayment of tax.[43] Failure to pay U.S. federal income tax is punishable by a civil penalty of up to 25% of the tax owed.[44] Failure to file a federal income tax return is similarly punishable by a civil penalty of up to 25% of the tax owed.[45] If the failure to file an income tax return, filing a false tax return or failure to report or pay the tax due is a result of fraud (i.e., an intentional violation of a known legal duty), the penalty can rise to 75% of the tax owed.[46] Still more draconian is the civil penalty for failure to file an FBAR reporting a foreign bank account. This penalty can be as much as 50% annually of the value of the account as of June 30; in other words, a failure to file an FBAR for six years can generate a civil penalty equal to three times the value of the account.[47]

More threatening still are potential criminal penalties. For example, a willful failure to file a return or to pay the tax due is punishable by a fine of up to $100,000[48] and/or one year in prison.[49] A false or fraudulent statement made willfully on a tax return is punishable by a fine of up to $250,000 and/or three years in prison.[50] A willful failure to collect (i.e., withhold) or pay over taxes is punishable by a fine of up to $250,000 and/or five years in prison.[51] A willful attempt to evade tax is punishable by a fine of up to $250,000 and/or five years in prison.[52] Finally, willful failure to file an FBAR is punishable by a fine of up to $500,000 and/or 10 years in prison.[53]

Conclusion

It is vital for any foreign athlete or entertainer who works in or engages in any transaction relating to the United States to retain knowledgeable tax counsel. The IRS's stated focus on these individuals threatens to ensnare those attempting to navigate the intricacies of the U.S. tax laws without proper guidance. The overlap of foreign nationality, frequent travel, lucrative contracts, and fame heightens the risk of IRS inquiry. Tax-efficient planning will help foreign taxpayers steer clear of numerous pitfalls and save money that might otherwise be lost through tax overpayment, interest, and penalties. The goal is to allow the foreign athlete or entertainer, when coming to the United States, to avoid financial concerns so the individual can concentrate on his or her talent, training, and performance—the point of being here in the first place.

Endnotes

1. Martin Rogers and Kevin Iole, *Manny Pacquiao prefers to fight Juan Manuel Marquez in China because of high U.S. taxes*, Yahoo! Sports, Feb. 11, 2013 *at* http://sports.yahoo.com/news/boxing--pacquiao-prefers-to-fight-marquez-in-china-because-of-high-u-s--taxes-003802872.html; Ben Cohen, *Will Taxes Chase Pacquiao-Marquez V to Asia?*, Wall Street Journal, Jan. 18, 2013 *at* http://blogs.wsj.com/dailyfix/2013/01/18/manny-pacquiao-juan-manuel-marquez-v-will-taxes-chase-to-asia/.
2. IRS Focus on Foreign Athletes and Entertainers, Aug. 3, 2012, athttp://www.irs.gov/Individuals/International-Taxpayers/IRS-Focus-on-Foreign-Athletes-and-Entertainers.
3. United States v. Snipes, 611 F.3d 855 (11th Cir. 2010).
4. United States v. Castroneves, 08 20916 CR (S.D. Fla.) (DLG).
5. *See, e.g.*, *Sports celebrities and their tax troubles*, AccountingWeb.com, Nov. 9, 2009, *at* http://www.accountingweb.com/topic/sports-celebrities-and-their-tax-troubles; Manny Davis, *Julio Cesar Chavez vs IRS: Chavez Owes $12.7M in Back Taxes*, BackTaxesHelp.com, Aug. 31, 2009, *at* http://www.backtaxeshelp.com/tax-blog/tax-news/julio-cesar-chavez-vs-irs-chavez-owes-12-7-million-in-back-taxes.html.
6. Garcia v. Commissioner, 140 T.C. No. 6 (2013).
7. Except where otherwise indicated, "tax" as used herein refers to U.S. federal income tax.
8. Treas. Reg. §§ 1.1-1(b), 1.1-1(a)(1); 1.871-1(a).
9. Treas. Reg. § 1.871-1(a).
10. Internal Revenue Code of 1986, as amended (the "Code").
11. Code §§ 7701(a)(30)(A), 7701(b)(1)(A).
12. Code §§ 7701(b)(1)(A)(i) and 7701(b)(6); Treas. Reg. § 301.7701(b)-1(b).
13. Code § 7701(b)(6).
14. Code §§ 7701(b)(1)(A) and7701(b)(1)(A)(iii).
15. *See*, *e.g.*, U.S. Model Tax Treaty Art. 4, Para. 3.
16. Code § 7701(b)(6); Treas. Reg. §§ 301.7701(b)-7(b), 301.7701(b)-7(c)(1)(i). Note that such a taxpayer may still be treated as a tax resident for purposes of the controlled foreign corporation rules and FBAR rules.
17. Treas. Reg. § 301.7701(b)-2(e).
18. Code § 7701(b)(3)(B); Treas. Reg. §§ 301.7701(b)-2(a), 301.7701(b)-8(a)(1), and 301-7701(b)-8.
19. Treas. Reg. § 301.7701(b)-3(a). Treas. Reg. §§ 301.7701(b)-8(a)(2) and 301.7701(b)-8(b)(2).
20. Code § 7701(b)(3)(D); Treas. Reg. §§ 301.7701(b)-3(a) and 301.7701(b)-3(b).
21. *See*, *e.g.*, U.S. Model Tax Treaty Art. 16, Para. 1.
22. *See*, *e.g.*, U.S. Model Tax Treaty Art. 4, Para. 3.
23. Code §§ 861(a)(3) and 862(a)(3).
24. Treas. Reg. § 1.861-4(b).
25. Code §§ 861(a)(4) and 862(a)(4).
26. Code §§ 861(a)(1) and 862(a)(1). Note that residence in the context of the sourcing rules does not have the same meaning as residence in the context of "Tax Residence." *See, e.g.*, Code § 865(g); Treas. Reg. §§ 1.861-2(a)(2) and 301.7701(b)-1(a).
27. Code §§ 861(a)(2) and 862(a)(2).
28. Code §§ 861(a)(5) and 862(a)(5).
29. Code § 865(a).
30. Code § 861(b) and 862(b).
31. Code § 1441 and 1442.
32. Treas. Reg. § 1.1441-1(b).
33. *See* http://www.irs.gov/Individuals/International-Taxpayers/Central-Withholding-Agreements and http://www.irs.gov/pub/irs-pdf/f13930.pdf for instructions on how to apply for a CWA. The application must be made at least 45 days before the nonresident alien's arrival in the United States.
34. Code § 864(b); Treas. Reg. § 1.871-1(a). Certain exceptions apply.
35. Code § 871(a)(1), Treas. Reg. § 1.871-7(b)(1). *See also* Code § 864(c)(2).
36. Code § 873.
37. Code § 871(b).
38. Treas. Reg. §§ 1.1-1(b), 1.1-1(a)(1); 1.871-1(a).
39. Code § 6012, Treas. Reg. § 1.6012-1(a)(1)(ii).
40. Treas. Reg. §§ 1.6012-1(b) and 1.6012-1(b)(2)(i).
41. 31 C.F.R. § 1010.350(a); 31 U.S.C. § 5314; 31 C.F.R. § 103.24(a); FBAR General Instructions, General Definitions, United States Person.
42. 31 C.F.R. § 1010.350(b)(2). The definition of "United States" is modified for such purposes but such modification is not relevant to the discussion set forth herein.
43. Code § 6662(a) and (b); Treas. Reg. §§ 1.6662-1, 1.6662-2(a), 1.6662-2(b).
44. Code § 6651(a)(2).
45. Code § 6651(a)(1). When the civil penalties for failure to file and failure to pay both apply, the failure to file penalty is reduced by the failure to pay penalty, resulting in a maximum combined penalty of 47.5%. Code § 6651(c)(1).
46. Code §§ 6651(f)(2), 6663(a).
47. 31 U.S.C. § 5321(a)(5)(C) and 5321(a)(5)(D).
48. The criminal fines set forth herein are those applicable to individuals only.
49. Code § 7203.
50. Code § 7206; 18 U.S.C. § 3571(b).
51. Code § 7202; 18 U.S.C. § 3571(b).
52. Code § 7201; 18 U.S.C. § 3571(b).
53. 31 U.S.C. § 5322(b).

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It’s a Family Affair: What You Should Consider When Counseling Bands

By Daniel Scott and Paul Gutman

Being in a band or musical group can be a complicated thing. Musicians spend their time pouring their blood, sweat and tears (not to mention time and money) into writing and performing the greatest songs possible, mastering their craft and trying to be the best. Like any art, the process of making music can be, and often is, a very emotional, personal and cathartic experience. Each song can feel like the artist’s child. In a band, the experience is shared with other individuals, and each song has many artists responsible for its creation as a result. Just as each song is a child, the band itself is also a living, breathing organism that grows over time.

> *“[W]hile each musician’s personal legacy is forever intertwined with the band, the band itself may grow to have a legacy all unto its own, one which will belong as much to each band member as it will to fans and the general public.”*

The art, and the band itself, *belong* to its members. A piece of the band and all that it creates will be the most important (and potentially most valuable) thing that most musicians will ever own. To each member the band represents a life’s work, a source of income, and an individual artistic legacy. However, while each musician’s personal legacy is forever intertwined with the band, the band itself may grow to have a legacy all unto its own, one which will belong as much to each band member as it will to fans and the general public. Balancing these interests—each member internally balancing his or her own economic, artistic and musical legacy against each other, then the members balancing their own interests against each other, all while juggling the artistic and historic legacy of the band as a unit—can be a challenging task.

When a Band Is Just Starting Out (or “Have a Cigar”)

What is a band? Simply put, it is a collection of musicians who come together to make music. However, once a band chooses to do more than practice together, it is also a business. What type of a business and what that means legally all depends on the agreement between the band members, whether written or verbal. In some instances, one individual (as a sole proprietor) may hire other musicians to perform and possibly write music. In other cases, the members may form a partnership, corporation or limited liability company, where the band members have an equity stake in the business. Where there is no written agreement or formal entity created, the band is most likely a partnership under the law. This can have unexpected and undesirable consequences (e.g., in many states each partner can take action on behalf of the general partnership without the approval of the other partners). Obviously, a written agreement is preferable so that there is clarity from the beginning as to the rights and responsibilities of the band members.

While it is easy to think about the band solely as a business proposition, the reality is that most bands also function much like a family. There can be hurt emotions, jealousy, feelings of favoritism and other personality conflicts that have little to do with the “business” of music. For that reason, drafting a band agreement is a lot like drafting a prenuptial agreement. However, many bands never have a formal written agreement. Most bands are not formed as a result of professional musicians formally sitting down and deciding that they are going to form a group, followed by a formal handshake and acknowledgement that the lawyers will work out the details and put the papers together. The more common story is that a bunch of musicians or friends get together to jam, and they just start playing. If there is chemistry, they may get together again. The next thing they know, songs are written and band names are tossed around. Soon, a first gig is booked and the band is off and running (about to ride the gravy train). In other words, more often than not, it all *just sort of happens*. Therefore, practitioners should tread lightly when discussing the need for a formal agreement, since it could be last thing on the band’s collective mind and the idea could be disruptive if not properly presented.

Typically, the issue of a formal written band agreement does not arise until the band has started to achieve some financial and artistic success. At this point, the relationship among the band members is usually harmonious, if occasionally punctuated by squabbles of varying intensity. Yet if there is one thing many families do not do it is talk about money, especially when times are good, to avoid fights. Since bands often function like families, when band members begin to talk about an agreement (even when coming from the purest of motives) it can be awkward and cause tension. Knowing the right approach and on what issues to focus is critical.

The approach should be positive and high-spirited. Neutrality is a must—an attorney is best served by representing the band as a whole, and the band members are cautioned to try and remember that taking strong, self-interested positions can result in permanently fracturing the band in the "be careful what you wish for" vein. A formal agreement should not be viewed as some intimidating legal document meant to position band members against one another. Rather, it is a valuable acknowledgment that these musicians are in a band, and a reassurance that each member understands exactly what that means. It is also a ceremonial celebration of the unity of the band, and each member's commitment to work together. It is a roadmap for how the band will work together.

Band agreements can become very complicated and nuanced based on particular facts and circumstances. However, when dealing with new bands, the main issues are the following:

(1) ***How is income divided?*** It is common for band members to split all revenue generated by the band equally, but circumstances may dictate otherwise. For example, where there are revolving members, or separate recording and performing personnel, the band may want to clarify that royalties will be shared based on who performed on a particular recording and/or who performs at a particular show.

(2) ***How are most band decisions made?*** Does the band act by a majority, supermajority or unanimous vote? Is there perhaps a single band leader who calls all of the shots?

(3) ***How are publishing rights owned?*** Publishing (the rights regarding musical compositions) is unique in that each composition can have one or many creators contributing independent creative material, where custom and practice have evolved so that each contributor can claim a specific percentage of the particular composition. Some bands take an all-for-one approach to publishing rights (i.e., every song is written by "the band"), and all royalties are split evenly among the band members at the time the song was written. In some bands, there may be one or two members who get all of the credit for particular songs (e.g., Lennon and McCartney or Page and Plant), or one band member may write all of the lyrics (e.g., "Written by U2/Lyrics by Bono"). Others prefer a more complicated formula approach, where each instrumental part, lyrics and melody are assigned a percentage and the person who contributed that part receives that percentage of the song's publishing royalties. It all depends on how the band writes its songs, and what the members agree is accurate, or at least fair.

(4) ***Who owns the band's name and who can use it outside of the band?*** Sometimes one band member, typically the founding member, may seek to own the name of the band and continue to perform under that band name even though all of the members have changed (e.g., Guns N' Roses).

(5) ***Who owns everything else?*** In addition to publishing rights and the band's name and logo, there are typically a variety of other assets owned by the band, such as merchandise and master recordings. Does the band own all of these assets, in which case each member owns an indirect percentage interest, or is there some other arrangement?

(6) ***What happens when a band member leaves or is terminated?*** Can the former band member continue to use the band's name for promotion purposes (e.g., can Slash continue to refer to himself as the "former lead guitarist for Guns N' Roses?"). Does that former band member continue to benefit economically from recordings and other merchandise to which he or she contributed? Is there a difference between a member who has retired or resigned versus one who has been fired? Is there a difference between a member fired for cause or fired without reason?

These issues all pertain to how the band functions while it is still together and all of its members are still alive. However, what happens if the band breaks up or simply retires? For that matter, how does one know when the band is "retired" and not "resting"? How are assets owned by the band divided? How do royalties continue to be shared? Who can use the band logo and name? What if a band member dies? Does his or her family inherit some interest in the band and all of its assets and earnings? If so, do they have a vote on band decisions? These issues are also very important, but can get rather complex, and may seem only remotely significant to a brand new band that has made very little, if any, money. It is also often these types of issues that can stall the negotiation of a band partnership agreement. For that reason, it is important to keep in mind that the band's agreement, much like the band itself, also functions like an organism and can evolve over time. It is often better to have something in writing that addresses the immediate issues than to not have a written agreement at all.

Evolving Over Time (or "Doing the Evolution, Baby")

There can come a point in a musician's life, particularly where he or she has achieved some historic relevance, when the artist realizes that what has been created is something larger than him or herself. The impact an artist can have on the lives of so many fans creates a responsibility to preserve that band and its works for the fans and for history, as well as the artists' own individual legacies. Pearl Jam, The Red Hot Chili Peppers, Green Day, and

Soundgarden are modern examples of bands that are current and making music today, yet their places in rock n' roll history have already been solidified. While there remains room for growth and change, these bands mean something to their fans, and to history.

Each of these bands at its core is a group of guys who got together a long time ago to make music. They are just people, with families to take care of, bills to pay, and somewhat day-to-day concerns. Then there is the band—their *other* family. There is the reality that what they created together as a band has touched people in a way only understandable because they too were once touched by bands they idolized. There is the reality that the band that they were so fortunate to be a part of, that the legacies they have created both as individual musicians and, more importantly, together as a unit, will exist *forever*. The music, performances, images, merchandise, and books, will continue to be available, and new ways of bringing the band and its music will become available. All of this can potentially provide a great deal of income and financial security for the families of the band members, long after they have all passed away. Without a written agreement and understanding as to how the band will continue to operate as an entity and how its legacy will be controlled, there is a great risk of disagreements and lawsuits among those who end up inheriting and controlling what the band has created. This can result in the band's work not being properly exploited, which means less money being generated, and it can also result in the legacy of the band being tarnished. All of this can be easily avoided by simply thinking and planning ahead, and planning it all in writing.

For a variety of reasons, a band may be reluctant to sit down and, well, face the music. For some, it raises questions of mortality that they would rather not acknowledge. In other cases, the band dynamic may have changed and there may be tensions (perhaps unspoken) that were once not there. In any event, the likelihood is that addressing the band's legacy will be a delicate task. Again, taking the right approach will be critical.

First of all, the conversation is not one about mortality. It is a discussion about *immortality*—the band's immortality. It is about how to preserve what the band has created, and how to make it grow and continue to reach new audiences. It is an acknowledgment and celebration of just how successful and relevant the band has and will become. This is a discussion about greatness, the stuff of which rock n' roll legends are made. What could be more exciting and interesting to talk about than that? Once the stage is set (no pun intended), and an attorney explains why the band needs to focus on certain issues regarding its future, then it is a matter of working through those issues and the decisions that need to be made. To keep things simple and begin the conversation, there are two overarching themes to keep in mind: (1) who controls the band and its output, and (2) who financially benefits from the band. It is important to remember that there is no *right* answer to any of these issues.

Who gets to benefit economically is probably the easier of the two issues to navigate. Often, if the band members can agree on how they will share in revenues and royalties generated by the band, most would agree that if a band member dies, his or her heirs should continue to receive the deceased band member's share for material to which he or she contributed. A band also needs to consider what happens if a band member is fired or quits. Does the former band member continue to receive royalties from recordings of which he or she was a part? Is there reason to give the former member a continued share in all earnings of the band? How these issues are resolved will depend on the relationship between the existing band members and the former member's contribution to the band.

Who controls the band and its output ultimately controls its legacy. These are the people charged with managing everything from when and how the band's music is played to where images appear. A classic example would be the use of The Beatles' music in a Nike campaign or John Lennon's face appearing on a coffee mug. While a band and all of its members are still alive, presumably they control these decisions either directly or indirectly through a manager (and perhaps with some input from interested third parties, such as the record label). As discussed earlier, these decisions are typically made by some vote of the band members (by majority, supermajority or unanimous vote). As the band evolves and solidifies its place in history, other issues begin to take center stage. As previously mentioned, the main issues are:

(1) ***What happens if a band member is fired or quits?*** The quick reaction may be to say that band member no longer has a say in band decisions, but should that necessarily be the case? If someone has spent 20 years building a music legacy and is fired or quits because he or she is no longer interested in continuing to tour, should the former member no longer have a say in how that band is perceived?

(2) ***What happens if a band member dies?*** When a band member dies, his or her heirs will presumably inherit his or her portion of the band in some way. Does that mean that a deceased band member's heirs should have his or her vote when it comes to band decisions? Should they have absolutely no control?

(3) ***What happens when all of the band members die?*** Will the band now be controlled by the heirs of each band member? Assume there are five members in a band, and each has an equal vote and the band acts by majority vote. In order to make any decisions, the band will require three band members to agree. If those five shares are now inherited by separate families, now five families

have to agree on each decision, and there may be multiple family members within each of those five families. This can get quickly out of hand, become grossly inefficient and lead to litigation. Perhaps a long-time manager or business partner is better equipped to make decisions regarding the band's legacy, someone who understands what the band is and means better than any individual band member's heirs. If so, the band may consider implementing a structure that separates who controls the band and its output and who benefits economically from the band. Thus, decisions relating to the band can be controlled by objective, non-family members (e.g., a board of trustees or directors), while family members can remain economic beneficiaries. Family members could also be given some overriding veto power or ability to change who controls the band's assets (perhaps by unanimous vote), in order to protect against the band's legacy being mismanaged.

There are a variety of ways to implement the band members' decisions on how they would like to be owned, operated and controlled. The key is to first get the members to talk about these issues and understand how they see it working, then to find the best structure to accommodate the band's goals. It is important to remember, however, this is not just some agreement to close a deal. This is art, and a family affair. Different bands will require different structures. After all, there are always different strokes for different folks.

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Failure to Warn: The National Hockey League Could Pay the Price for Its Pursuit of Profit at the Expense of Player Safety

By Timothy J. Geverd

Introduction

Ice hockey is the fastest, most intense contact sport played on two feet.[1] Whereas a familiar violent sport, American football, is played on turf and features frequent breaks and is generally limited to person-on-person collisions, hockey is played on ice, where athletes travel nearly twice as fast as they do on turf and the game rarely breaks, providing for violent and dynamic collisions from all angles.[2] This combination of speed, intensity, and violence produces horrific scenes like the infamous collision between Darcy Tucker of the Toronto Maple Leafs and Sami Kapanen of the Philadelphia Flyers on May 6, 2002 in Game 6 of the Eastern Conference Finals.[3] While this physical play brings fans to arenas and collisions like this bring them to their feet in approval, the aftermath of such a collision is enough to strike fear in the heart of onlookers and spark concern for these warriors who take to the ice on a nightly basis to do battle.[4]

> *"Although the NHL now appears committed to preventing head injuries while maintaining the game's physical character, the fact remains that it has been slow to implement protective measures and has done so only after elite players have suffered severe injuries."*

However, despite these frightening spectacles that are not uncommon on the ice of National Hockey League (NHL or the League) arenas, it was not until 1979 that the NHL mandated players who entered the League after that date wear helmets in competition.[5] Shockingly, this amendment to NHL rules did not come until over a decade after Bill Masterton died of a head injury sustained during an NHL contest.[6] Although Masterton was the first and only player to die as a direct result of injuries sustained during an NHL contest,[7] the League's sluggish response to take affirmative steps to protect players from serious injury has been troubling.

Even more troubling is the fact that the NHL took over 40 years before taking another affirmative step towards protecting players from serious head injuries with the enactment of Rule 48, which banned "lateral or blindside hit to an opponent where the head is targeted and/or the principal point of contact."[8] However, even this most recent initiative in the name of player safety did not come until after the NHL lost two stars to head injuries.[9] The first player lost prior to the 2010 enactment of Rule 48 was David Booth, who was rendered unconscious by a full-speed, blind-side hit delivered by Philadelphia's Mike Richards.[10] The second player lost prior to the 2010 enactment of Rule 48 was Marc Savard, whose career was ended by a similar violent hit delivered by Pittsburgh's Matt Cooke.[11]

Although the NHL now appears committed to preventing head injuries while maintaining the game's physical character,[12] the fact remains that it has been slow to implement protective measures and has done so only after elite players have suffered severe injuries. Given this hesitance to take affirmative action in order to protect players from significant risk of catastrophic injuries, the NHL faces the prospect of significant civil liability for exposing players to risks that either were not fully disclosed or were concealed so that a popular, violent game could remain unchanged and continue to attract fans.

I. War Game: Hockey's Roots

Ice hockey has long been an extremely violent sport, owing this violence to its late-19th century Montreal roots, in which rival ethnic tribes would compete against each other.[13] This interethnic animosity later gelled with British ideals of fairness and self-policing that has left its mark on the game to this day in the form of handshake lines after playoff games and in the notion that referees will allow players to settle certain scores among themselves.[14] This tacit agreement represents what is known as "the Code" in hockey, and it is an element of the game that sets ice hockey apart from other professional sports played in North America.[15] Within this framework, as the game is handed down from generation to generation, hockey has become a sport in which violence begets violence as the intensity builds to an ultimate crescendo in the form of bare-knuckle brawling.[16]

After it moved indoors in 1915, the once wide open game of speed took on an even more physical tone, in which play moved at 30 miles per hour and, what was once a *game* played outdoors, looked more like war fought within the confines of an indoor rink.[17] In 1917, the NHL was established with an opportunity to tame the ever-increasing violence.[18] However, rather than limit the violence and fighting, NHL executives chose to keep violence as part of the professional game.[19] In 1922, after league owners saw how fighting increased fanfare and profit, league officials officially codified fighting as part of the professional game in Rule 56.[20] Rule 56, now NHL Rule 46,—although aimed at limiting fighting—specifically allows one-on-one engagements by providing for when fighting is permitted and for how fights are to proceed.[21]

As hockey's popularity grew, so too did the pressure on owners to continue attracting and entertaining fans.[22] While the game's speed and finesse attracted many of the more knowledgeable fans, it was apparent that hockey appealed to an even wider consumer base for its players' toughness and the spectacle of violence on the ice.[23] Fans not only went to games to see thrilling playmaking and to see their favored team win, but they also attended in hopes of seeing a game of revenge, intimidation, and retaliation spill over into uncontrolled passion and violence.[24] Within this framework of revenge and intimidation, some have noted that hockey players possess a so-called "stupid point," in which a player's level of anger takes him to a point where rational behavior ceases and the irrational ensues.[25] It is when players pass this so-called "stupid point" that hockey sees its most violent and shocking incidents.[26] However, in the aftermath of a 1975 incident that landed Boston Bruin Dave Forbes in court,[27] Forbes' attorney argued before a Hennepin County, Minnesota court that it was the game of hockey that was morally culpable for the gruesome injury that resulted from a vicious butt-end to the eye,[28] not his client.[29] In his argument, Forbes' attorney put hockey's "insistence on intimidation, on winning at all costs, [and] on accepting grievous injury as just part of the game" on trial rather than his client's irrational violent outburst.[30] The attorney placed blame for his client's outburst squarely on the game's shoulders, citing a sort of "Jekyll/Hyde" effect in which his client could not account for his own actions.[31]

While the NHL and the game of hockey were not on trial for Dave Forbes' actions, the time might come in the future when the business minds at the helm of the NHL will come to answer for their conscious effort to sell violence in hockey in pursuit of greater profits at the expense of player safety.[32]

II. The National Hockey League Downplays Player Safety Concerns

Just as violence has been a part of ice hockey from the game's inception,[33] so too has the notion that ice hockey is a product of sports designed to prepare young men for success not only on the ice, but also on the battlefield.[34] As such, ice hockey is not only a game of speed and physical contact; it is also a game of intimidation.[35] Consequently, hockey played as war is generally held to be the only way to successfully play the game.[36] Within this framework, success on the ice can involve aiming to injure another team's star player, or stomaching an injury of one's own team in order to continue battle.[37] The bottom line is that, in the war waged on the ice of the NHL, it pays to injure the other team's stars and to ignore one's own pain to soldier on.[38]

The idea that hockey is commensurate with battle is not merely conjecture; in fact a survey of hockey's history will produce not only accidental deaths, but also homicides.[39] War waged on the ice makes hockey unlike any other competitive sport in which players often chat with each other amicably or help each other up after the flow of play knocks them to the ground.[40] Rather, where other sports, like football, feature frequent breaks in the action, the action in hockey rarely breaks for longer than a few moments during periods of play requiring players to maintain their intensity and focus at all times.[41] Further differentiating ice hockey from other professional sports, is that the war waged on the ice has been known to produce legally cognizable offenses that result in players facing either criminal or civil liability.[42]

This combination of violence and war-like competition makes hockey arguably the most dangerous of all team sports.[43] In fact, the list of promising NHL players whose careers have been cut short due to injury is astounding.[44]

However, despite the loss of NHL players and the development of medical knowledge regarding post-concussive syndrome, the NHL has lagged behind the National Football League (the NFL) in taking steps to protect players from the devastating effects of head injuries.[45] As recently as 2000, the NHL trailed its professional contact sport counterpart, the NFL, significantly in areas such as concussion research and in equipment development.[46] During this time period, Philadelphia Flyers star Eric Lindros suffered a concussion that went undiagnosed for 11 days.[47] This incident illuminated the insufficiencies in the NHL's player safety protocol, and yet the NHL, and the Philadelphia Flyers organization, blamed Lindros, and not the protocol for missing the concussion.[48] Rather than recognize a failure in the NHL medical infrastructure in botching Lindros' concussion diagnosis, the Philadelphia Flyers organization suggested that Lindros was responsible for the delay in diagnosis because he "hid" his symptoms.[49] Outside observers, however, believe that putting the burden on players to self-report concussion-like symptoms as recently as 2000 evidenced that the NHL was operating in the stone age of the concussion issue.[50]

The difficulty of the self-reporting model has roots in the notion that hockey is war.[51] Hockey players generally "feel if they can walk, they need to be out there playing… if they don't, their teammates will think less of them[,] [they have] to be tough [and] play hurt."[52] The familial structure of hockey teams, in which players are not only teammates, but also friends and "brothers," reinforces this fear of letting teammates down.[53] This cohesive bond leads players to play through injuries and to return to the game after serious, sometimes career, if not life, threatening injuries.[54] Further complicating the idea that players will self-report concussion-like symptoms is that players do not always understand what is going on with their brains the way they understand the limiting nature of other physical injuries.[55]

Other barriers to early diagnosis of concussions in the NHL are that breaks in the action are infrequent, and there is rarely significant down time between games.[56] Additionally, unlike in the NFL, where team physicians travel with teams to road games, as recently as 2000, NHL team physicians did not travel with teams.[57] Therefore, instead of physicians dealing with difficult-to-diagnose concussions, teams entrust athletic trainers. It can sometimes be as long as a week from the time of suspected injury until a player can see the team physician.[58] However, despite the challenges in identifying concussions in hockey players, as of 2000 the NHL had done relatively little in the way of protecting athletes from concussions and improving the League's medical processes for diagnosing those concussions when they do occur.[59]

Although the NHL had yet to adopt a comprehensive policy in identifying and combating concussions in its sport as of 2000, the severe threat that concussions present has been recognized by the medical community since at least 1984, when the medical profession first recognized the rare, but sometimes fatal, phenomena of second-impact syndrome.[60] In fact, rather than recognizing the danger and the severity of the risk posed by brain injuries, it was not until the 2011-2012 season that the NHL adopted the use of a "quiet room" for players diagnosed with a concussion during a game, and finally embraced the term "concussion" as a cognizable and accepted injury.[61] These modest steps represented the most significant steps the NHL has taken to address the concussion issue in its nearly 100 year history.[62] Whereas the NFL had undertaken significant research initiatives regarding concussions and their causes in order to improve protective equipment, the NHL not only has yet to initiate research into the issue, but League executives went so far as to refuse collaboration on the issue with the NFL in 1999.[63] In fact, despite growing awareness of concussions in the NHL, League executives and general managers have refused to label the growing number of concussions in the league a "crisis" or an "epidemic,"[64] despite data suggesting that concussion incidents have been, and remain, on the rise in the NFL.[65]

Rather than celebrating the strides the NHL has made recently regarding concussions, the timing of increased awareness should give outside observers pause for concern.[66] While concussions to stars Sidney Crosby, Claude Giroux, and Chris Pronger made headline news around the League,[67] many players who are not stars or who are still trying to earn spots on team rosters appear hesitant to bring attention to their concussive injuries.[68]

Despite downplaying the concussion "crisis,"[69] such injuries in the NHL continue to be a huge problem.[70] An April 2011 study that examined NHL data regarding head injuries found that, out of the fewer than 800 NHL players, a full 10% of those players experienced or will potentially suffer a serious head injury.[71] Of those reporting having experiencing a head injury, around 20% reported suffering from symptoms of severe trauma, such as amnesia, following the initial injury.[72] Further, of those who suffered head injuries, the vast majority missed or will miss playing time as a result.[73] As players suffer repeated concussions the length of time in recovery tends to increase significantly.[74] Further, after sustaining an initial head injury, players have a significantly higher likelihood of suffering subsequent head injuries. In fact, players who suffer a second or third head injury usually require 2.25 times more rehabilitation and recovery time than do those players suffering from their first head injuries.[75]

While the recent information regarding the frequency with which NHL players suffer head injuries is troubling, the symptoms suffered by players in the weeks after sustaining such injuries are only the beginning of resulting problems.[76] In 2007, North Carolina's Center for the Study of Retired Athletes (the Center) distributed a survey to former NFL players who had suffered three or more concussions during their careers. Five-hundred-ninety-five players responded.[77] Of those responding to the inquiry, over 20% reported experiencing episodes of depression.[78] From these responses, and other research, the Center concluded that the rate of depression among retired NFL players who experienced head injuries during their careers was three times that of players who had not.[79]

Concerns about concussions and their aftermath were pushed to the forefront of both NHL and national media discussion when longtime fighter Derek Boogaard was found dead in his Minnesota apartment in May 2011.[80] After the toxicology report was released, Boogaard's family confirmed in a public statement that he had been battling with substance addiction and abuse, as his role as an enforcer in the NHL required that he play through pain and suffer severe physical beatings on a nightly basis in order to maintain his roster spot.[81] At the time of his death, Boogaard was undergoing treatment for his substance abuse with the support of the NHL, the National Hockey League Players' Association (the NHLPA), and the New York Rangers.[82] Prior to his death, the New York Rangers enlisted Boogaard's services as fighter.[83] During his first and only year with the team, Boogaard played in only 22 games before his season was cut short after suffering a concussion and shoulder injury in a fight on December 9, 2010.[84] Boogaard struggled to recover after sustaining the concussion, the third reported concussion of his career, and often needed to wear sunglasses, as his eyes were sensitive to sunlight.[85] While the media and the NHL were quick to dismiss notions that Boogaard's death was related to his head injuries, friend and former

NHL enforcer, Georges Laraque, informed the media that Boogaard was "down" in the days leading up to his death.[86]

After a stint in rehabilitation prior to the 2009-10 season, teammates said that Boogaard had lost his personality and that he would frequently pass out in both the locker room and in the middle of card games on the team plane.[87] Additionally, Boogaard was increasingly dependent on painkillers and alcohol, often buying thousands of dollars of painkillers at a time.[88] After suffering the season-ending concussion on December 9, 2010, Boogaard exhibited symptoms of severe depression as he often inexplicably broke down into tears and lived in seclusion.[89] Still later, Boogaard developed manic mood swings in which he would be sullen in one moment and, in the next, be constructing grand plans for his future.[90] This behavior continued and worsened until his eventual death from an overdose of painkillers and alcohol in May 2011.[91]

After his death, Boogaard's family agreed to donate his brain for research, and the Boston University School of Medicine stated that Boogaard's brain would be examined for signs of degenerative disease characteristic of repeated traumatic brain injury.[92] After five months of research, the results of the study confirmed that Boogaard's brain was severely damaged from repeated injuries.[93] Medical researchers concluded that Boogaard suffered from chronic traumatic encephalopathy (C.T.E.), a disease closely related to Alzheimer's disease.[94] Although C.T.E. can only be diagnosed definitively posthumously, doctors say that it manifests itself in life in the form of mood swings, memory loss, impulsiveness, and addiction.[95] With this scientific finding, it is evident that although the NHL initially dismissed any assertion that Boogaard's death was connected with head injuries, Boogaard's behavior prior to his overdose was indicative of C.T.E caused by repeated traumatic brain injury.[96]

Despite troubling signs indicative of C.T.E. and the significant risks that accompany the disease, those positioned best to assist Boogaard, the New York Rangers' medical staff, overlooked the symptoms and continued to prescribe painkillers.[97] While the NHL continued to deny that Boogaard's death was related to head injuries sustained during his career, after receiving a call from Boogaard's distraught brothers, who found the ex-NHL enforcer dead in his Minnesota apartment, Boogaard's father simply stated, "I knew this was going to happen."[98]

On May 10th of this year, Boogaard's family filed suit in the Circuit Court of Cook County, Illinois, alleging "that the NHL is responsible for the physical trauma and brain damage that Boogaard sustained…and for the addiction to prescription painkillers" that ultimately caused his death.[99] This wrongful death suit "…could have far-reaching implications…to all NHL players generally.… [It] could be the first step toward" concussion litigation on similar scale to that experienced by the NFL.[100]

The NFL has dealt with issues related to C.T.E. proactively and, although initially resistant to the idea that on-field head injuries were related to the onset of C.T.E., have donated significant money to underwrite Boston University's Center for the Study of Traumatic Encephalopathy's research.[101] Despite the loss of four former enforcers due to complications from C.T.E., the same cannot be said of the NHL, as Commissioner Gary Bettman is skeptical of the connection between on-ice head injuries and the onset of C.T.E. He stated that "it's way premature to be drawing any conclusions at this point."[102]

However, despite the alarming evidence that concussions continue to be a significant problem in the NHL, altering the game to provide for better player safety is not a black-and-white issue for the League, as increasing player safety can sometimes be at odds with League profits.[103] An illustrative example of this is the fact that the NHL could go a long way to alleviate on-ice congestion, and also lessen the frequency of violent collisions, by widening the ice surface to European dimensions.[104] However, widening NHL playing surfaces would mean eliminating seats in the arenas and therefore forfeiting profits in the name of player safety.[105]

The same focus on the bottom line is also present in decisions on restructuring the game so as to limit violent collisions on ice. As noted earlier, ice hockey is unique among other sports due in large part to the violent play that transpires on the ice.[106] As such, a significant majority of owners, executives, and general managers believe that maintaining a certain level of on-ice violence is essential to maintaining the game's popularity with fans.[107] While recent moves by the NHL suggest a commitment to limiting violent collisions,[108] given the allure and profitability of on-ice violence, NHL executives have been hesitant to punish its players too harshly for violating rules aimed at protecting players and promoting player safety.[109]

Indicative of this hesitance to punish players too harshly for violating protective rules is the NHL Department of Player Safety's election to include player intent as an element of doling out punishment for violation of player safety rules.[110] While the NFL, cognizant of player safety concerns, has embarked to eliminate helmet-to-helmet hits by outlawing those hits under a strict liability regime that punishes violators heavily,[111] the NHL enforces its equivalent rule in a squishy manner that results in wildly inconsistent punishments for violations.[112]

The NFL has recognized that league executives are responsible for player health and safety not only for the sake of NFL players, but also for the sake of collegiate and youth leagues for which the NFL serves as example and role model.[113] However, the NHL, committed to "tradition" and to "physicality," has been sluggish in addressing an epidemic of concussions that affect significant numbers of players and former players and has resulted in the deaths of at least four former enforcers.[114]

Although the NHL contends that there is no definitive link between on-ice head injuries and resulting long term issues like C.T.E, medical researchers believe that the League is "trading money for brain cells" by not taking affirmative steps to address player safety concerns.[115] Such disregard for player safety in the name of preserving profit is not dissimilar to cigarette manufacturer behavior in concealing nicotine's addictive qualities, behavior that courts concluded was culpable and worthy of finding liability.[116]

III. History of Liability Arising from On-Ice Transactions

Although hockey's dangerous nature is widely known, courts have not categorically ruled out finding liability for on-ice transactions.[117] While courts have traditionally frowned upon players losing their composure during competition, judges often err on the side of leniency, given the interest in keeping the game competitive and entertaining.[118] Despite the fact that courts have set the standard for finding liability in on-ice transactions high, decisions in cases that find liability and dicta in cases where courts decline to find liability inform that there is a point where players cross the line from excusable altercations to culpable misconduct.[119]

In 1981, a jury sitting in United States federal court awarded $850,000 in damages to former NHL player Dennis Polonich for injuries sustained during an on-ice transaction with Wilf Paiement.[120] The underlying incident that resulted in a judgment against Paiement occurred in October of 1978.[121] After the two NHL enforcers exchanged words, Paiement hunted down Polonich and struck him across the face with his hockey stick.[122] Polonich suffered a concussion, a severely broken nose that required reconstructive surgery, and other facial lacerations from the attack.[123] Although Polonich returned to play just 18 games after the incident, he was never able to return to his prior form and was out of the NHL by 1982.[124]

More recently, in a similar incident, Montreal Canadiens prospect Alexander Perezhogin found himself before an Ontario criminal court for an on-ice incident that occurred in April 2004.[125] Perezhogin was ultimately charged and convicted of assault causing bodily harm for viciously swinging his stick like a baseball bat and striking opposing player, Garrett Stafford, in the face.[126] The victim was hospitalized following the altercation as he suffered both severe facial lacerations and a severe concussion.[127] The immediate aftermath of this particular incident is especially haunting as it depicts Stafford convulsing as he suffered an apparent seizure from the trauma.[128] Both Perezhogin's resulting criminal conviction and popular reaction to the incident inform observers that, while players assume certain general risks when competing, they do not necessarily assume the risk of every particular injury that might befall them during competition.[129]

Even though these incidents represent what most would call absolutely egregious behavior, courts have not limited their findings of participant liability to when players use their sticks as weapons.[130] In particular, Melvin Unruh recovered a judgment of $3,761,090.81 from defendant Steve Webber for an on-ice incident that occurred during a youth hockey game that left Unruh a C4 paraplegic.[131] The incident that led to Webber's liability occurred when both Webber and Unruh were chasing down a puck behind Unruh's team's net.[132] Unruh was pursuing the puck with the much larger Webber trailing behind when Webber made contact with Unruh's back and sent him careening into the end-boards.[133] The hit was a clear violation of Canadian Amateur Hockey Association Rule 53, which prohibits hits from behind, and Webber was assessed a five-minute major penalty on the play.[134] While the trial judge ultimately entered judgment in favor of the plaintiff, he did not do so on the basis of maliciousness or egregious conduct.[135] Rather, the trial judge held Webber liable on the basis that, given his understanding of Rule 53 and its purpose of protecting players from serious injury, he owed Unruh a duty to observe that rule and was negligent in performing that duty.[136] In judging Webber's conduct, however, the trial judge elected to apply a reckless standard rather than an ordinary negligence standard, given the fact that the incident occurred during sport.[137] The court's finding, and its subsequent approval on appeal, inform us that players do not assume certain particular risks, and they do not necessarily assume the risk that opposing players will disregard rules and, in doing so, expose them to severe harm.[138]

While these cases evidence that courts will not always balk at holding players accountable for their on-ice behavior, it is not unheard of for injured players to sue the governing bodies of the leagues in which they played when injured.[139] In addition to suing governing bodies for injuries sustained during play, players have also successfully sued teams, coaches, and owners for the conduct of their players that led to serious injury.[140]

What is evident from the litigation related to on-ice injuries is that players, teams, coaches, owners, and leagues are not necessarily insulated from liability by dint of assumption of risk. Rather, courts have delineated between the general risks assumed by ice hockey participants and certain particular risk, such as injuries sustained as a result of egregious, malicious, or reckless behavior. While suits dealing with this delineation between general and particular risks are relatively sparse for cases arising directly out of ice hockey, the waves of cigarette liability litigation in the 1980s and 1990s thoroughly developed this area of the law.

IV. Cigarette Manufacturers Fail to Warn and Pay the Price

The health concerns associated with smoking have been a matter of public knowledge since as early as the late nineteenth century, and anti-smoking campaigns have existed since as early as the seventeenth century.[141] In fact, the prevalence of messages to the public that smoking might be fatal suggested to many that expectations of deleterious health effects were ingrained in cigarette consumers' expectations of the product they were purchasing.[142] Such was the attitude towards plaintiffs in the first wave of product liability suits against cigarette manufacturers in the 1950s and 1960s as courts and juries refused to award plaintiffs damages for what were viewed as choices for which consumers should take personal responsibility.[143]

Plaintiffs in cigarette liability suits advance their theories of recovery based on the notion that cigarette manufacturers failed to adequately warn them of the health risks posed by smoking and for what they allege as misleading advertising.[144] However, these theories of recovery face significant hurdles to success in American courts of law.[145] Among those hurdles are statutory preemption by the Federal Cigarette Labeling and Advertising Act of 1965 and the exclusion of cigarettes from the purview of Restatement Second of Torts § 402A.[146] By expressly stating that tobacco is not unreasonably dangerous because of possible deleterious health effects of smoking, the Restatement appears to take the position that smokers assume the "common knowledge" health risks posed by tobacco.[147]

However, in a "second wave" of liability suits against cigarette manufacturers, plaintiffs successfully advanced claims predicated not on the deleterious health effects of cigarettes in general, but rather on the theory that manufacturers failed to disclose and, in fact, suppressed information regarding the particular risk of nicotine addiction.[148]

A. Courts Differentiate Between Assumption of General Risks and Assumption of Particular Risks

Generally, a manufacturer has no duty to warn consumers of risks associated with its product when those risks are a matter of common knowledge within the community.[149] However, during the second wave of cigarette liability litigation, courts acknowledged that, in order for a consumer to assume a certain risk as a matter of law and absolve manufacturers of a duty to warn, those consumers must first appreciate not only general risks associated with a product, but also particular risks.[150] As such, while suits predicated on the general health risks posed by cigarettes were precluded as knowledge of such risks was held to be "common knowledge" as a matter of law after 1964, suits predicated on the particular risk posed by nicotine addiction were not barred because knowledge of such risk was not "common knowledge" and was not included within the general risks posed by cigarettes.[151]

In *American Tobacco Co. v. Grinnell*, the Supreme Court of Texas dealt with the issue of whether "common knowledge" of the health risks posed by cigarette smoking was such that manufacturers were relieved of their duty to warn smokers of those risks.[152] The court ultimately held that the defendant failed to adequately prove that knowledge of addictive nature of cigarettes was so prevalent as to entitle the defendant to summary judgment on the matter.[153] In reaching this conclusion, the court differentiated the general risks posed by smoking, which were commonly known by the time the plaintiff's decedent started smoking in 1952, and the *particular risk* of addiction, which the court concluded was not commonly known until the release of the 1988 Surgeon General Report on Nicotine Addiction.[154] Given that addiction represented a danger that was entirely separate from those physical dangers presented by cigarettes, the court refused to conclude that consumers assumed the specific risk of addiction when they assumed those general health risks posed by cigarettes.[155]

In *McLean v. Philip Morris, Inc.*, the United States District Court for the Eastern District of Texas distinguished between claims predicated on the general health risks posed by cigarettes, and the particular risk of addiction posed by cigarettes.[156] The court held that the Tobacco Products Labeling Act did not bar claims based on the particular risk of addiction, because the defendants failed to establish that knowledge of the addiction risk was so widely known to be "common knowledge" when the plaintiffs started smoking.[157] The court reasoned that, because the particular risk of addiction was not generally known to the community, the plaintiffs could not be said to have assumed that particular risk because knowledge of a potential risk is essential to assumption of that risk as a matter of law.[158]

B. Courts Punish Cigarette Manufacturers for Suppressing Information Regarding Addiction to Preserve Profit

In addition to allowing plaintiffs to advance claims predicated on cigarette manufacturers' failure to warn of addictive risks, some courts found cigarette manufacturers' conduct contributing to lack of knowledge regarding cigarettes' addictive qualities so reprehensible as to warrant awards of punitive damages.[159]

In *Boeken v. Philip Morris Inc.*, the Court of Appeals for the Second District, Division 4, in California went into great detail in analyzing the reprehensibility of the defendant's conduct in marketing a product it knew to be unreasonably dangerous to consumers.[160] The Court concluded that, as of 1959, internal memoranda from the defendant acknowledged that one of the major reasons why people continued to smoke was nicotine's addictive effect.[161] However, despite these suspicions, the defendant and other cigarette manufacturers embarked on a campaign to spark a "false-controversy" in hopes of creating doubts among smokers regarding emerging studies on cigarettes' deleterious effect on health.[162] Further, rather than taking steps to make cigarettes safer, the defendant responded to findings suggesting that nicotine was addictive and causing significant health problems by adding chemicals to its cigarettes in order to make them more addictive and harmful and marketed the brand under the guise that the new formula was *safer* than previous cigarettes.[163] Drawing on this evidence of malfeasance, the Court concluded that the defendant's conscious disregard for consumer safety for the purpose of producing a more addictive and, thus, more successful cigarette, was the type of reprehensible conduct that warranted punitive damages.[164]

Although the general health risks associated with smoking cigarettes was held to be a matter of "common knowledge" by 1964, the "second wave" of cigarette liability cases demonstrates that where there is a particular risk within a generally dangerous product, manufacturers remain duty-bound, under penalty of civil liability, to disclose that particular risk when it comes within their knowledge.

V. Merril Hoge Recovers from Chicago Bears for Concussion Predicated on Team's Suppression of Information

Although popular belief is that athletes injured during competition are barred from suit by theories of assumption of risk or of comparative or contributory negligence,[165] some commentators believe that the ever-increasing social awareness regarding the dangers of concussions will spur an expansion of litigation involving a plaintiff-athlete suing a defendant-team or governing institution for concussions and their aftermath.[166] Although most concussion-related cases tend to settle before reaching trial, Merril Hoge's successful suit against the physician employed by his former NFL team might be indicative of this trend towards more concussion-related litigation.[167]

Hoge's suit was predicated on the theory that the Chicago Bears' physician failed to alert him to the long term dangers associated with post-concussion syndrome and to warn him regarding the severity of concussions he sustained during competition.[168] At the close of the two-week trial, the jury awarded Hoge $1.45 million for the unpaid two years of his three-year contract with the Bears and an additional $100,000 for pain and suffering.[169] Testimony during trial included that of former Bears head coach, Dave Wannstedt, and several doctors and medical experts.[170]

The Bears' team physician, Dr. John Munsell, argued that Hoge was responsible for the injuries he suffered while playing and their subsequent effect on his health.[171] However, the jury concluded from testimony heard that Munsell should have explained the risks associated with returning to play too soon after receiving a concussion and the long term implications associated with brain injuries.[172] While sports culture informs us that athletes routinely play through pain, Hoge did not know what the symptoms of his concussions meant and, by not sitting Hoge down and preventing his premature return to play, Munsell exposed Hoge to the risk of prolonged post-concussive syndrome.[173] Consequently, the jury determined that Munsell's failure to do so contributed directly to brain damage suffered by Hoge and related difficulties concentrating.[174]

Hoge's victory in court shows that juries do not always believe that athletes in collision sports assume all risks associated with injuries, and that to some extent, the sport culture of sacrificing individual well-being in the name of profit and victories results in liability.

Hoge's case is unique in that most courts acknowledge a need to weigh the benefits of protecting participants from suffering injuries as a result of playing sports against the idea that participation is largely voluntary, and that physical contact with resulting injuries is inherent in collision sports.[175] The result is that liability for injuries sustained during competition in collision sports lies only where a plaintiff can prove that a defendant was reckless in exposing the former to the risk of injury, rather than mere negligence.[176] As such, injuries that are the result of customarily accepted means of playing a sport generally do not result in liability, as courts often hold that athletes assume the risk of these ordinary injuries, as they are within the notorious and foreseeable ambit of dangers associated with participation.[177] However, Hoge's case illustrates that while head injuries are a risk inherent in participation in collision sports,[178] the long term implications associated with such injuries are not as notorious and foreseeable as the acute injuries, and players do not necessarily assume the risk of developing C.T.E. or other cognitive disorders, such as early onset Alzheimer's.[179]

Collision sports are a large part of American culture and it is understandable why courts have been reluctant to assign liability for injuries sustained during the ordinary course of play.[180] However, as information regarding the long term effects of brain injuries continues to develop, it has become increasingly evident that courts might not be as willing to accept that premature return to competition after sustaining a brain injury is a risk that is inherent in collision sports.[181]

Both Hoge's case and continuing development of knowledge regarding brain injuries and their long term effects from concussions inform us that individuals, teams, and organizations that pressure or otherwise permit athletes to return to play before fully recovering from a brain injury can be held accountable for their actions in court.[182]

VI. Potential Future Liability for the National Hockey League

Similar to the culpable conducts of cigarette manufacturers in propagating a "false controversy" regarding particular health effects of their product[183] and of Chicago Bears physician John Munsell in failing to fully inform football player Merril Hoge of long term risks associated with returning to play too quickly after sustaining a concussion,[184] the NHL has engaged in behavior aimed at diminishing concerns over the ever-developing problem of head injuries in the League.[185] Additionally, while the NFL has acknowledged the problem of head injuries in its league and taken affirmative steps to stem the rising tide of concussions,[186] the NHL has waffled at doing the same by instituting a similar rule without the bite of strict liability.[187] Absent a clear stance on the head injury issue from the NHL's top echelon, the culture of the game has not witnessed meaningful change and remains just as dangerous as it was when the concussion issue first emerged.[188] While part of this hesitance to change lies with players' commitment to the traditional norms of the game,[189] the NHL front office is ultimately the administrator of formal League policy and balks at altering physicality for fear of losing ticket sales.[190] However, the position of NFL Senior Vice-President Ray Anderson, informs us that league governing bodies are not only responsible for ensuring that the product on the field or ice is profitable, but are also responsible for ensuring ongoing player safety.[191]

By downplaying concerns regarding the long term effects of head injuries, treating the seriousness of concussions unevenly, and by selectively enforcing penalties for prohibited hits that target the head, the NHL has, at the least, negligently attended to its duty of ensuring player safety. As concussions still appear to be minimized injuries among the League's less heralded players and those who are expected to return to competition too soon after suffering head injuries, it cannot be said that players assume the particular long term risks associated with playing with such risks. Both the Restatement Second of Torts and cigarette liability cases inform us that there is a difference between assuming general risks and assuming certain particular risks associated with a given activity. Therefore, it is foreseeable that the NHL could face liability in the future for exposing players to the risk of the long term effects of head injuries without fully informing about or protecting those players from that risk.

Conclusion

While it was traditionally thought that professional athletes in collision sports assumed the risk of serious injury, and therefore could not recover damages for head injuries sustained during competition, a line of cigarette liability cases differentiates between the assumption of general risks and the assumption of certain particular risks. These cases show that knowledge of the risk is essential for that risk to be assumed. Given that the NHL has openly expressed skepticism regarding the link between on-ice concussions and certain long term effects like C.T.E., it can hardly be taken for granted that players have assumed the risk of long term effects associated with head injuries. The NHL owes its players a duty of vigilant protection of player safety. By endeavoring to diminish any connection between on-ice head injuries and long term effects, the NHL has deprived players of important information in assessing risks of continuing to play after injury and negligently performed its duty to protect player safety. For this failure, the NHL could find itself in litigation with a class of players who suffer from the long term effects associated with traumatic brain injuries.

Endnotes

1. *See, e.g.*, Lawrence Scanlan, Grace Under Fire: The State of Our Sweet and Savage Game 72-73 (2002) [hereinafter Grace Under Fire] (explaining the nature of violent contact in ice hockey, as well as the speed at which players move).
2. *Id.*
3. *See* NHLArchive, *[Vintage] Darcy Tucker Obliterates Sami Kapanen*, YouTube (Nov. 2, 2010), http://www.youtube.com/watch?v=ybPY_9PtZ4Q (showing a full speed, head-on collision between Tucker in blue and Kapanen in white).
4. *See* stugotz28, *Tucker Lays Out Kapanen*, YouTube (Dec. 18, 2006), http://www.youtube.com/watch?v=frAqoeHix5s (showing Kapanen struggling to coordinate his body to skate back to his bench for medical attention).
5. *NHL Uniforms: A Brief History*, The Hockey Uniform Database, http://www.nhluniforms.com/History.html.
6. Robert Cribb, *Star Investigation: What Really Killed Bill Masterton*, The Star.com (May 28, 2011), http://www.thestar.com/sports/hockey/article/998665--star-investigation-what-really-killed-nhl-s-bill-masterton.
7. *Id.*
8. *See* Matt Hunter, *NHL Head Shots: Matt Cooke Proves Rule 48 Not Working, but Punishing Teams Would*, The Bleacher Report (Mar. 22, 2011), *available at* http://bleacherreport.com/articles/642335-nhl-head-shots-matt-cooke-proves-rule-48-not-working-but-punishing-teams-would (quoting NHL Rule 48.1).
9. *Id.*
10. *See* tibortaliban, *Mike Richards Hits/Destroys David Booth*, YouTube (Oct. 25, 2009) (showing Richards in black colliding full-speed with Booth in white and making contact with Booth's head, leaving Booth unconscious); *see also* Hunter, *supra* note 8 (mentioning that the loss of David Booth to injury contributed to the enactment of Rule 48).
11. *See* NHLArchive, *Matt Cooke Knocks Marc Savard Out*, YouTube (Mar. 7, 2010) (showing Cooke in black elbowing a defenseless Savard in white in the head, leaving Savard writhing in pain on the ice); *see also* Hunter, *supra* note 8 (mentioning that the loss of Marc Savard to injury contributed to the enactment of Rule 48).
12. *Cf.* Dan Rosen, *GMs: Evidence Suggests Rule 48 is Limiting Head Hits*, NHL.com (Nov. 9, 2010), http://www.nhl.com/ice/news.htm?id=542981 (explaining the desired effect of implementing Rule 48 and the results observed early in the first season after its implementation).

13. Jeff Z. Klein, *Hockey's History, Woven with Violence*, N.Y. Times (Dec. 10, 2011), http://www.nytimes.com/2011/12/11/sports/hockey/hockeys-history-woven-with-violence.html?pagewanted=all (last visited Jul. 9, 2012).

14. *Id.*

15. Grace under Fire, *supra* note 1, at 26.

16. *See id.* at 26, 32, 40.

17. *Id.* at 40, 43.

18. *See* Ross Bernstein, The Code: The Unwritten Rules of Fighting and Retaliation in the NHL, 3 (Triumph Books 2006) [hereinafter The Code].

19. *Id.* at 4.

20. *Id.*

21. *See* NHL Official Rules, Rule 46, http://www.nhl.com/ice/page.htm?id=26336; *see also* Tracey Oh, Comment, *From Hockey Gloves to Handcuffs: The Need for Criminal Sanctions in Professional Ice Hockey,* 28 Hastings Comm. & Ent. L.J. 309, 313-14 (2006) (stating that "[i]ce hockey is unique among all other sports because fighting and violence are not only condoned, they are *encouraged*) (emphasis added).

22. *See* The Code, *supra* note 18, at 6.

23. *Id.* at 7.

24. *Id.* at 6-7.

25. *See, e.g.,* Grace Under Fire, *supra* note 1, at 59 (citing a report by hockey-great-turned-attorney, Ken Dryden, regarding an incident that occurred between the Universite de Moncton Aigles Bleus and the Prince Edward Island Panthers in which Moncton players attacked a referee after a controversial call).

26. *See generally* The Code, *supra* note 18, at 9-26 (describing three of hockey's most shocking violent outbursts).

27. *Id.* at 9 (describing a 1975 on-ice altercation between Boston Bruins forward Dave Forbes and Minnesota North Stars forward Henry Boucha that resulted in Boucha's career ending and Forbes being charged with aggravated assault).

28. "The action whereby a player uses the shaft of the stick, above the upper hand, to check an opposing player in any manner or jabs or attempts to jab an opposing player with this part of the stick." NHL Official Rules, Rule 58.1.

29. The Code, *supra* note 18, at 10; Grace Under Fire, *supra* note 1, at 69.

30. Grace Under Fire, *supra* note 1, at 69.

31. *Id.* at 69-70.

32. William McMurtry, Ministry of Cmty. and Social Servs., Investigation and Inquiry into Violence in Amateur Hockey 24 (1976).

33. *See supra* Part I.

34. *See* The Code, *supra* note 18, at 3.

35. *See* Grace Under Fire, *supra* note 1, at 43.

36. *See id.* at 43.

37. *See, e.g.*, *id.* at 48 (recounting an instance where Team Canada's Bobby Clarke was sent out to break an opposing player's ankle).

38. *Id.* at 176.

39. *See id.* at 54-55 (describing organized hockey's first homicide); *see also supra* Part I (relating Bob Masterton's death from injuries sustained during an NHL contest).

40. *See, e.g.*, *id.* at 46 (comparing ice hockey to football and baseball).

41. *See* Grace Under Fire, *supra* note 1, at 46-47, 178 (suggesting that "pauses in football serve to cool off emotions," thus differentiating hockey's level of violence from that of football); *see also* Debra L. Feldman, *Pandora's Box is Open: Criminal Prosecution Implemented; Violent Play in the National Hockey League Eliminated*, 2 Va. Sports & Ent. L.J. 310, 315-17 (2003) (suggesting that the highly emotional nature of ice hockey coupled with the extremely high pace of play makes the sport "'…incompatible with asking players to continuously evaluate the harmful potential of their conduct'" (quoting C. Antoinette Clarke, *Law and Order on the Courts: The Application of Criminal Liability for Intentional Fouls During Sporting Events*, 32 Ariz. St. L.J. 1149, 1178 n.182 (2000)).

42. *See generally* Grace Under Fire, *supra* note 1, at 54-70 (traversing a history of hockey players in court for on-ice infractions); *see also infra* Part III.

43. Grace Under Fire, *supra* note 1, at 63.

44. *See id.* at 65.

45. *See id.* (explaining steps taken in light of developments in post-concussion syndrome beginning in 1999); Paul Domowitch, *Time to Think: Injuries to High-Profile Players Bring Concussion Issue to Head*, Houston Chronicle (Jun. 11, 2000), *available at* http://www.chron.com/CDA/archives/archive.mpl/2000_3221238/time-to-think-injuries-to-high-profile-players-bri.html.

46. *See* Domowitch, *supra* note 45.

47. *Id.*

48. *Id.*

49. *Id.*

50. *Id.*

51. *See supra* Part III (describing the unique, battle-like characteristics of ice hockey).

52. *Id.* (quoting Dr. E. Lee Rice, a San Diego-based sports medicine specialist with experience serving professional hockey teams).

53. Grace Under Fire, *supra* note 1, at 102-03.

54. *E.g.,* Ted Ryan, *Another Bad Break*, Burlington Free Press, Oct. 20, 2006 at D1 (quoting this author) ("There are few things in this world I'll deliberately put myself through pain to do...To be out there, in the game, playing with my teammates....that's one of the things I'd walk through fire for."); uvmathletics, *Chris Atkinson Feature*, YouTube (Jan. 14, 2009) (quoting ice hockey player Chris Atkinson) ("Everyone just wants to get back in the game no matter how severe the injury is. Whether it's a sprained ankle or...you're getting your jugular slit...we'll do anything to get back.").

55. *See* Domowitch, *supra* note 45.

56. *See id.*

57. *Id.*

58. *See id.*

59. *See, e.g.*, *id.* (contrasting progress made by the NFL as of 2000 with the lack of progress made by the NHL at the same time).

60. *See* Ericka A. Diehl, *What's All the Headache?: Reform Needed to Cope with the Effects of Concussions in Football*, 23 J.L. & Health 83, 92 (2010).

61. *See* John Boruk, *Does the NHL Still Have a Concussion Problem?*, CSNPHILLY.com (Mar. 13, 2012), *available at* http://www.csnphilly.com/blog/flyers-talk/post/Does-the-NHL-still-have-a-concussion-pro?blockID=668842.

62. *See, e.g.*, *id.* (stating that the NHL did not initiate a serious dialogue about concussions until 2011).

63. *See* Domowitch, *supra* note 45 (reporting that the NHL refused help from the NFL on researching concussions); *see, e.g.*, Boruk, *supra* note 61 (stating that the NHL must first research the issue before implementing improvements).

64. *See* Boruk, *supra* note 61.

65. *Id.*

66. *See id.* (questioning the NHL's commitment to combating concussions in general or only when star players are affected).

67. *Id.*

68. *See, e.g.*, Frank Seravalli, *Bourdon Back After Playing Through Scary Ailments*, PHILADELPHIA SPORTSWEEK (Apr. 9, 2012 08:09 AM), *available at* http://www.philly.com/philly/sports/flyers/20120406_Bourdon_back_after_playing_through_scary_ailments.html (describing young defenseman's hesitance to report a concussion to team doctors, because he did not want to be seen as another guy milking an injury to collect a paycheck).

69. *See* Boruk, *supra* note 61.

70. *See, e.g.*, ADAM PROTEAU, FIGHTING THE GOOD FIGHT: WHY ON-ICE VIOLENCE IS KILLING HOCKEY, 120 (2011) (describing the rate at which NHL players suffer serious concussions).

71. *Id.*

72. *Id.*

73. *Id.*

74. *Id.*

75. PROTEAU, *supra* note 70, at 120.

76. *Cf. id.* at 120-21 (discussing long term effects reported by retired NFL players).

77. *Id.*

78. PROTEAU, *supra* note 70 at 121.

79. *Id.*

80. Jeff Z. Klein, *Boogaard Died from Alcohol and Drug Mix*, N.Y. TIMES (May 20, 2011), *available at* http://www.nytimes.com/2011/05/21/sports/hockey/boogaard-died-from-mix-of-alcohol-and-oxycodone.html?pagewanted=all.

81. *See id.*

82. *Id.*

83. *Id.*

84. *Id.*

85. Klein, *supra* note 80.

86. *Id.*

87. *Id.*

88. *See* John Branch, *Derek Boogaard: A Brain 'Going Bad,'* N.Y. TIMES (Dec. 5, 2011), *available at* http://www.nytimes.com/2011/12/06/sports/hockey/derek-boogaard-a-brain-going-bad.html?pagewanted=all.

89. *Id.*

90. *Id.*

91. *See* Branch, *supra* note 88; Klein, *supra* note 80.

92. *Id.*

93. *See* Branch, *supra* note 88.

94. *Id.*

95. *Id.*

96. *See id.*

97. *E.g.*, Branch, *supra* note 88 (stating that Boogaard's father continued to find prescription bottles with Rangers' doctors' names on the bottles).

98. *Id.*

99. John Branch, *In Suit Over Death, Boogaard's Family Blames the N.H.L.*, N.Y. TIMES , May 12, 2013 at D1; *see generally* Plaintiff's Complaint, at Nelson v. National Hockey League, No. 13L3945 (Ill. Cir. Ct. Cook Cnty.). Thus far, the Boogaard family has been unsuccessful in securing compensation for Derek's death. The National Hockey League Players Association (the NHLPA) first declined to file a grievance on behalf of the family to recover the balance of Boogaard's contract with the New York Rangers. Subsequently, the United States District Court for the Central District of California granted the NHLPA's motion for summary judgment in an action filed by the family alleging "that NHLPA breached its duty of fair representation by failing to file a grievance with the National Hockey League" to secure payment of Boogaard's contract. *See* Boogaard v. National Hockey League Players Ass'n, 2013 WL 1164301, at 1, 3 (finding that the claim was barred by the statute of limitations).

100. Nathan Fenno, *FENNO: Derek Boogaard Lawsuit Puts NHL on Notice*, THEWASHINGTONTIMES (May 13, 2013), http://www.washingtontimes.com/news/2013/may/13/derek-boogaard-lawsuit-puts-nhl-notice/?page=all#pagebreak.

101. Branch, *supra* note 88.

102. *See id.*

103. *See* Oh, *supra* note 21, at 318.

104. *See id.*

105. *See id.*

106. *See* Oh, *supra* note 21, at 313-14.

107. *See id.* at 316-17.

108. *E.g.*, Hunter, *supra* note 8 (discussing the enactment of Rule 48, prohibiting hits that target the head or that make the head the principal point of contact).

109. *See* Oh, *supra* note 21.

110. *See, e.g.*, PROTEAU, *supra* note 70, at 121-22 (reporting NFL executive vice-president Ray Anderson's critique of the NHL's enforcement of player safety rules).

111. *See id.*

112. *See, e.g.*, Scott King, *When is Enough Enough for Horrid NHL Officiating???*, WWW.CHICAGONOW.COM (Apr. 18, 2012 3:34 PM) (describing wildly inconsistent punishments for on-ice infractions handed out by League disciplinarian Brendan Shanahan).

113. PROTEAU, *supra* note 70, at 121.

114. *See id.* at 122.

115. *See* Branch, *supra* note 88.

116. *See infra* Part V.

117. *See, e.g.*, PROTEAU, *supra* note 70, at 38-39 (recounting an incident for which Rick Jodzio was charged and convicted of criminal assault); *supra* Introduction (discussing Bill Masterton's death and the subsequent criminal investigation); *supra* Part I (discussing Dave Forbes's criminal prosecution after an on-ice altercation left another player grievously injured). *See generally* GRACE UNDER FIRE, *supra* note 1, at 54-70 (discussing "the game on trial" by recounting various incidents in which hockey players or hockey itself was investigated in connection with legal liability). *But see* People v. Shacker, 670 N.Y.S.2d 308, 309-10 (Dist. Ct. 1998) (concluding that participants in ice hockey assume the risk of ordinary contact and of ordinary injuries and declining to find liability for an on-ice incident in the interest of encouraging "free and fierce competition in athletic events" where the defendant's conduct was not reckless or intentional and the victim's injuries were not severe).

118. *See* GRACE UNDER FIRE, *supra* note 1, at 62-63 (stating that courts ultimately apply a different standard when evaluating on-ice behavior as opposed to behavior that occurs in daily civilized discourse).

119. *See id.* at 65-64 (reporting incidents in which players, teams, and leagues have been found liable for injuries sustained by players as a result of particularly reckless and dangerous on-ice behavior).

120. Polonich v. A.P.A. Sports Inc., No. 74635 (E.D. Mich. 1982); *see also* George Vecsey, *Sports of the Times; The Price of Hockey Violence*, N.Y. TIMES, Aug. 25, 1982, at B9 (stating that "[t]he decision, in United States District Court in Detroit, mark[ed] the first civil penalty ever levied against a hockey player for violence on the ice").

121. Greg Eno, *Red Wing's Enforcer Never the Same After Brutal Attack*, BLEACHER REPORT (Oct. 10, 2009), *available at* http://bleacherreport.com/articles/269601-red-wings-enforcer-polonich-never-same-after-brutal-attack.

122. *Id.*

123. *Id.*

124. *Id.*

125. *See* Scott Burnside, *Perezhogin Trying to Move on in Montreal*, ESPN.COM (Oct. 19, 2005) *available at* http://sports.espn.go.com/nhl/columns/story?id=2194871.

126. *Id.*

127. *Id.*

128. *See* mikeblondin, *Alexander Perezhogin's Vicious Slash*, YOUTUBE.COM (May 2, 2012), *available at* http://www.youtube.com/watch?v=ytNvspVNrWA.

129. *E.g.*, *id.* (showing a post-game interview with Cleveland Barons' Head Coach, Roy Sommer, in which he stated that "[he] had never seen anything like [Perezhogin's behavior]" and that "[Perezhogin] should never play [hockey] again in North America.").

130. *See generally* Unruh v. Webber, 41 B.C.A.C. 161 (1994), *aff'd* [1994] 3 S.C.R. xi (upholding a trial court finding of liability for a participant defendant who checked the plaintiff from behind in violation of league rules and increasing the award of damages).

131. *Id. at* 162-63.

132. *Id.* at 163.

133. *Id.*

134. *Id.*

135. *See id.* at 164.

136. *See Unruh*, 42 B.C.A.C. at 164.

137. *Id.* at 174-75.

138. *See id.* at 175 (dismissing an argument that Webber's actions were to be excused on the basis that they occurred during the "heat of the moment" and affirming that players owe each other a duty to observe rules put in place in the name of player safety).

139. *See* GRACE UNDER FIRE, *supra* note 1 (reporting that a Junior B player named John Millikin sued the Canadian Hockey Association for $13 million for an injury sustained during on-ice competition that left him a quadriplegic).

140. *See id.* at 64-65 (reporting that Junior player Jure Kovacevic sued both the opposing player's team's coach and owner for an injury sustained during a game that cost him his dream of playing professional hockey).

141. *See* Matthew Baldini, *The Cigarette Battle: Anti-Smoking Proponents Go for the Knockout*, 28 SETON HALL L. REV. 348, 351-52 (1995); Paul G. Crist & John M. Majoras, *The "New" Wave in Smoking and Health Litigation – Is Anything Really so New?*, 54 Tenn. L. Rev. 551, 553-54 (1987).

142. *See supra* note 141, Crist at 553.

143. *Id.*

144. *Id.* at 574.

145. *See generally supra* note 141, Crist at 575-96 (explaining various challenges to plaintiff recovery in cigarette manufacturer liability cases).

146. *See supra* note 141, Crist at 560-74.

147. *Id.* at 585-86; RESTATEMENT (SECOND) TORTS § 402A cmt. i (1965).

148. *See, e.g.*, Boeken v. Philip Morris Inc., 26 Cal. Rptr. 3d 638, 678 (Cal. Ct. App. 2005) (allowing recovery of both compensatory and punitive damages predicated on "addiction" theory and acknowledging cigarette manufacturers' reprehensible suppression of information regarding the addictive nature of cigarettes), *cert. denied*, 547 U.S. 1018 (2006); McLean v. Philip Morris, Inc., 1999 U.S. Dist. LEXIS 13551, 23 (E.D. Tex. 1999) (distinguishing between claims predicated on general health risks of smoking and claims predicated on the particular risk of addiction); American Tobacco Co. v. Grinnell, 951 S.W.2d 420, 431 (Tex. 1997) (declining to conclude that knowledge of tobacco's addictive qualities was common knowledge as a matter of law); State v. American Tobacco Co., 14 F. Supp. 2d 956, 966 (E.D. Tex. 1997) (allowing the state's suit predicated on the "addiction" theory of liability to survive defendant's motion to dismiss); *supra* note 141, Crist at 596 (expressing skepticism regarding plaintiff's theories of recovery predicated on the "addiction" theory prior to the second wave of liability suits against cigarette manufacturers); *Compare with* Guilbeault v. R.J. Reynolds Tobacco Co., 84 F. Supp. 2d 263, 273-74 (D.R.I. 2000) (concluding that knowledge of the general health risks associated with cigarettes was "common knowledge" as of 1964 and, thus, dismissing plaintiff's claim predicated on recovery for general health risks associated with smoking).

149. American Tobacco Co. v. Grinnell, 951 S.W.2d 420, 426 (Tex. 1997) (citing Joseph E. Seagrams & Sons, Inc. v. McGuire, 814 S.W.2d 385, 388 (Tex. 1991)).

150. McLean v. Philip Morris, Inc., 1999 U.S. Dist. LEXIS 13551, 23 n. 19 (E.D. Tex. 1999) (reasoning that the Tobacco Products Labeling Act precluded all suits predicated on liability arising out of general health risks posed by cigarettes, but that the Act did not preclude suits predicated on liability arising out of the particular risks associated with nicotine addiction).

151. *See* McLean, 1999 U.S. Dis. LEXIS 13551 at 23; American Tobacco Co., 951 S.W.2d at 429; *Compare with* Guilbeault v. R.J. Reynolds American Tobacco Co., 84 F. Supp. 2d 263, 271-72 (D.R.I. 2000).

152. 951 S.W.2d 420, 424 (Tex. 1997).

153. *Id.*

154. *Id.* at 429-30.

155. *Id.* at 429, 430.

156. *See* 1999 U.S. Dist. LEXIS 13551 at 5.

157. *Id.* at 23.

158. *Id.* at 23 n. 19 (citing RESTATEMENT (SECOND) OF TORTS §496C cmt. i (1986)).

159. *See* Boeken v. Philip Morris Inc., 26 Cal. Rptr. 3d 638, 686-87 (Cal. Ct. App. 2005).

160. *Id.* at 675-80.

161. *Id.* at 650.

162. *Id.* at 656-58.

163. *Id.* at 660, 664.

164. *See* Boeken, 26 Cal. Rptr. 3d at 677, 678 (determining that the defendant's repeated malfeasances at the expense of consumers warranted assessment of punitive damages).

165. *Cf.* Diehl, *supra* note 60, at 96 (stating that defendants typically shield themselves from liability in suits arising out of injuries sustained during play).

166. *See* Alexander N. Hecht, *Legal and Ethical Aspects of Sports-Related Concussions: The Merril Hoge Story*, 12 SETON HALL J. SPORT L. 17, 20 (2002).

167. *See id.* at 20-21.

168. *Id.* at 21; Rummana Hussain, *Hoge Wins Lawsuit Against Doctor*, CHICAGO TRIBUNE (Jul. 22, 2000), *available at* http://articles.chicagotribune.com/2000-07-22/sports/0007220191_1_hoge-concussions-brain-damage.

169. *Id.*

170. *Id.*

171. *Id.*

172. *Id.*

173. *Id.*

174. *See* Hussain, *supra* note 168.

175. *See* Diehl, *supra* note 60, at 97.

176. *Id.*

177. *See id.* at 98.

178. *See, e.g.*, *id.* (proffering that assumption of risk precludes most plaintiff suits arising out of head injuries sustained while participating in football).

179. *See, e.g.*, *id.* at 116 (discussing recent studies conducted by the NFL regarding cognitive consequences experienced by former NFL players); Diehl, *supra* note 60, at 120 (stating that lack of knowledge regarding the long term effects of concussions is an obstacle to having more athletes self-report concussions).

180. *E.g.*, Diehl, *supra* note 60, at 97 (stating that the court's reluctance to find liability for injuries sustained during play is based partly on a desire to avoid chilling competition in sport and partly due to concern that finding such liability would incentivize litigation based on ordinary injuries sustained during the ordinary course of play).

181. *Cf. id.* at 121 (stating that head injuries are an inherent risk of playing contact sports, but that premature return to competition after suffering a head injury is not an inherent risk).

182. *See, e.g.*, Diehl, *supra* note 60, at 121 (discussing legal reform aimed at holding individuals accountable for allowing players to prematurely return to competition after sustaining brain injuries in an effort to incentivize more rigorous monitoring of brain injuries and to increase the ambit of player protections).

183. *See supra* Part IV.

184. *See supra* Part V.

185. *See, e.g.*, Branch, *supra* note 88 (discussing NHL commissioner Gary Bettman's skeptical reaction to a proposed link between on-ice head injuries and the onset of C.T.E. after an examination confirmed that recently deceased player Derek Boogaard, suffered from C.T.E).

186. *See, e.g.*, PROTEAU, *supra* note 70, at 121 (discussing the NFL's strict enforcement of penalties levied for prohibited helmet-to-helmet collisions).

187. *See id.* at 121-22.

188. *See, e.g.*, *id.* at 122 (discussing the NHL's lack of clear understanding of the crucial issue regarding the concussion and the resulting hesitance to change the established culture).

189. *See generally* THE CODE, *supra* note 18, at 31-94, 168-71 (discussing "the code" and its effect on the game and player safety); PROTEAU, *supra* note 70, at 96-116 (discussing eight unwritten rules of hockey that represent the game's "code").

190. *See* PROTEAU, *supra* note 70, at 125-26.

191. *See id.* at 121.

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Cat and Mouse: The Interplay of Copyright Law and Innovation in the Internet Age

By Jonathan Bloom

I. Introduction

Word that Congress is preparing to undertake a comprehensive view of copyright law, with an eye toward accounting for technological change, prompts reflection on how courts have dealt with new technology under current copyright law. In the Internet era, courts have regularly been called upon to apply the Copyright Act in new contexts and to fashion common law copyright doctrines so as to fairly balance the rights of copyright owners with those of innovative, entrepreneurial users. The resulting body of case law will likely inform the debate over how the law should be revised.

The Internet has presented copyright owners with new opportunities to disseminate their works, as well as with new challenges in combating infringement. Confronted with a wide range of online services that use third-party content, courts have sought to allow socially beneficial new technology to flourish while preventing piracy and thereby protecting the legitimate prerogatives of copyright owners. Over time, as the law has evolved in response to new online services, those services have evolved in response to the law. This interaction of copyright law and digital technology in the Internet age has been something of a cat-and-mouse game, featuring a dynamic interplay between law and innovation.

This article looks at this phenomenon through a sample of cases litigated over the past decade and a half. It does not address cases primarily construing the Digital Millennium Copyright Act (DMCA), an elaborate statutory regime about which much ink has been, and will be, spilled, and which is sure to be reevaluated as Congress takes stock of the Copyright Act. The article focuses instead on how courts have applied traditional copyright liability doctrines, defenses, and statutory rights to new services. These cases, involving peer-to-peer file sharing services, a digital "storage locker," search engines, a reseller of "used" MP3 music files, and services that stream television broadcasts without authorization over the Internet, reflect the fact that copyright owners and online services each have a role to play in realizing the copyright law objective of encouraging the creation and dissemination of works of authorship. The challenge lies in properly defining the parameters within which each may act.

II. File-Sharing: *Napster* Begets *Grokster* Begets Inducement

A. *Napster*

No phenomenon has more severely tested the law's ability to protect copyright owners than the emergence of peer-to-peer file sharing services—first music-oriented sites and now also video-oriented sites such as YouTube. The first legal skirmish in the effort to rein in this phenomenon was the case against Napster, Inc. (Napster). Napster was the phenomenally popular pioneer in enabling millions of users around the world to "share" MP3 music files with other users without permission of the copyright owners. The litigation, which resulted in the original Napster's demise, produced what remains an important ruling in defining the contours of contributory and vicarious infringement for online service providers.

Napster was sued in 1999 in the Northern District of California for contributory and vicarious copyright infringement by a group of major record labels and music publishers who moved for a preliminary injunction. Among the district court's factual findings at the preliminary injunction stage was that "a majority of Napster users use the service to download and upload copyrighted music," which, the court found, violated the copyright owners' reproduction and distribution rights.[1] With respect to contributory infringement, with its "knowledge" and "material contribution" prongs,[2] the court held that Napster did not need to have knowledge of "specific acts of infringement" to be liable, and it rejected Napster's argument that it did not have sufficient knowledge of infringement because it could not distinguish infringing from noninfringing files. The court also found that Napster's provision of support services, without which users could not find the music they wanted, amounted to a material contribution to infringement. With respect to vicarious infringement, the court found that the plaintiffs were likely to establish that Napster had a direct financial interest in the infringing activity and the right and ability to supervise its users' conduct.[3] Based on these findings, the district court entered a broad preliminary injunction that barred Napster from "engaging in, or facilitating others in copying, downloading, uploading, transmitting, or distributing plaintiffs' copyrighted musical compositions and sound recordings…without express permission of the rights owner."[4]

On appeal, the Ninth Circuit agreed that Napster users were direct infringers.[5] As to contributory infringement by Napster, the court rejected Napster's reliance on the "staple article of commerce" doctrine articulated in *Sony Corp. v. Universal City Studios, Inc.*,[6] which protects the distributor of a product "capable of substantial noninfringing uses" against imputed knowledge of infringement based solely on the distribution of the product that can be used to infringe. The Court held that Napster's "actual, specific knowledge of direct infringement" rendered *Sony* of "limited assistance" to Napster.[7] Yet the Court drew a "clear distinction" between "the architecture of the Napster system" and "Napster's conduct in relation to the operational capacity of the system."[8] Under *Sony*, it refused to "impute the requisite level of knowledge to Napster merely because peer-to-peer file sharing technology may be used to infringe plaintiffs' copyrights," since it found Napster capable of noninfringing use. However, "if a computer system operator learns of *specific infringing material* available on his system and fails to purge such material from the system, the operator knows of and contributes to direct infringement."[9]

On the other hand, absent specific information identifying infringing activity, a computer system operator "cannot be liable for contributory infringement merely because the structure of the system allows for the exchange of copyrighted material." In Napster's case, the Court found evidence that Napster had "*actual* knowledge that *specific* infringing material" was available using its system; that Napster could block access to the system by suppliers of the infringing material; and that it failed to remove the material.[10] As for material contribution, the Court found that Napster provided the "site and facilities" for direct infringement and thereby materially contributed to it.[11]

Turning to vicarious infringement, the Ninth Circuit found that Napster's future revenue was "directly dependent upon" increasing its user base and that more users would register as the quality and quantity of the available music increased.[12] Napster also had the right and ability to police its system but "failed to exercise the right to prevent the exchange of copyrighted material."[13] The court pointed out that Napster's ability to police its system was limited by the fact that Napster did not "read" the content of the indexed files but merely ascertained whether they were in the proper format.[14] Yet it found that Napster had the ability to locate infringing material on its search indices and to terminate users' access to the system and that Napster's failure to police its "premises" while financially benefiting from the continuing availability of infringing files on its system likely made it a vicarious infringer.

Although the court of appeals agreed with the district court that injunctive relief was warranted, it narrowed the scope of the injunction. Whereas the district court had essentially barred Napster from facilitating any unauthorized file sharing, the Ninth Circuit held that the "mere existence of the Napster system absent actual notice and Napster's demonstrated failure to remove the offending material" was "insufficient to impose contributory liability."[15] Instead, the Court held, contributory infringement required a showing that Napster (i) received "reasonable knowledge of specific infringing files with copyrighted musical compositions and sound recordings"; (ii) "knows or should know that such files are available on the Napster system"; and (iii) "fail[ed] to act to prevent viral distribution of the works."[16] It also held that Napster could be vicariously liable when it failed to "affirmatively use its ability to patrol its system and preclude access to potentially infringing files listed in its search index."[17]

Conforming the injunction to its more nuanced view of Napster's potential liability, the Court assigned to the plaintiffs the burden of providing notice to Napster of "copyrighted works and files containing such works available on the Napster system before Napster has the duty to disable access to the offending content."[18] Somewhat confusingly, it also required Napster to "polic[e] the system within the limits of the system," while acknowledging that the system did not allow Napster to access users' MP3 files.[19]

By holding that *Sony* did not protect Napster where it failed to act on actual or constructive knowledge of specific instances of infringement, the Ninth Circuit narrowed application of the staple article of commerce doctrine to reflect the degree of control that Napster could exercise over the use of its system. By requiring knowledge of specific infringements as a predicate for liability, the Court effectively held that noninfringing uses of Napster, such as the sharing of public domain or authorized material, could not be sacrificed to a broad, prophylactic conception of contributory infringement. The court thus defined policing infringement as a shared burden akin to the DMCA notice-and-takedown regime.

Pursuant to its vicarious infringement analysis, the court did nominally impose on Napster an affirmative obligation to identify infringing files within the limits of its system. However, in emphasizing the limits of Napster's ability to identify infringing files, the court signaled that although Napster could not be willfully blind to infringing conduct, an affirmative policing obligation would not override the "specific notice" trigger for contributory liability. This too paralleled the DMCA, which provides expressly that a service provider need not take affirmative steps to discover infringement to qualify for safe-harbor protection.[20]

B. *Aimster*

After Napster shut down in July 2001 to comply with the injunction, other services stepped in to fill the P2P void—and, they hoped, to stay on the right side of the law. Among these opportunistic services was Aimster.[21] Aimster was an email-based file sharing service that sought to get around *Napster* by using encryption to avoid acquiring actual or constructive knowledge of specific infringing files. Aimster users could designate other registered Aimster users as "buddies" and communicate with them when they were online by attaching any files they wanted to share. All such communications were encrypted by the sender and decrypted by the recipient using software supplied by Aimster. Aimster argued that because of the encryption software, it lacked knowledge of which songs were being shared by users and therefore could not be contributorily liable.

As in *Napster*, the district court found that the plaintiffs were likely to succeed on their contributory and vicarious infringement claims and entered a preliminary injunction. On appeal, the Seventh Circuit, in an opinion by Judge Richard A. Posner, held that willful blindness is knowledge for purposes of contributory infringement and that Aimster's principal could not escape liability by preventing himself from learning "what surely he strongly suspects"—that his users were copyright infringers.[22]

The Court also articulated limits on *Sony* that would figure prominently in the *Grokster* case. First, the court noted that the "seller of a product or service used *solely* to facilitate copyright infringement, though it was capable in principle of noninfringing uses," would not be immune from liability for contributory infringement. Second, the Court noted that Sony "had not in its advertising encouraged the use of the Betamax to infringe copyright.[23] Therefore, even if one's product or service *theoretically* were capable of noninfringing uses (something Aimster had failed to establish), that fact would not carry the day in the face of evidence of culpable conduct (which was not present in *Sony*).

C. *Grokster*

The *Grokster* defendants (Grokster and StreamCast) took a different approach to avoiding Napster's legal pitfalls: they eliminated the central server by which Napster facilitated—and could monitor and restrict—its users' file sharing activity. Grokster and StreamCast each used software that enabled users to send requests for files directly to the computers of other users with compatible software. On Grokster, the requests went to a user's computer designated as a "supernode," which had the ability to index files available on computers connected to it. If the requested file was found, the supernode disclosed its location to the requesting computer so the requesting user could download the file directly from the computer on which it resided. StreamCast's service operated primarily in a similar user-to-user manner, albeit without using supernodes.[24] In both services, the central server function was effectively outsourced to users.

The district court granted, and the Ninth Circuit affirmed, summary judgment for the defendants based on *Sony*.[25] The Ninth Circuit held that the decentralized architecture of their software gave the defendants no actual knowledge of specific instances of infringement and that the defendants did not materially contribute to infringement because it occurred directly between users. The decentralized architecture of the system also, in the Ninth Circuit's view, precluded a finding of vicarious infringement. The Supreme Court granted certiorari and reversed.

Justice Souter, in his opinion for a unanimous Court, found that although the services did not know which particular files were copied, searches using their software showed what was available on the networks reached by their software. A search conducted by the plaintiffs showed that nearly 90% of the files available on the Grokster system were copyrighted works. Although none of the infringing activity passed through the defendants' servers, the Court noted that Grokster and StreamCast were not "merely passive recipients of information about infringing uses."[26] Rather, the record was "replete with evidence" that the defendants intended their software to be used to download copyrighted works and that each "took active steps to encourage infringement."[27] After Napster was sued, for example, StreamCast distributed OpenNap software to Napster users to capture the email addresses of millions of Napster users to whom it could promote its service and distribute its software, with the express goal of becoming the next Napster. It also marketed itself as the best Napster alternative. Grokster likewise sought to attract Napster users by directing those searching for Napster to its own website. In addition, both companies sold advertising, the value of which increased with the volume of copyrighted work available, and neither made any effort to filter copyrighted material or otherwise impede the sharing of copyrighted files.

Among the relevant policy considerations the Court identified was the *Sony* principle that imposing liability on distributors of software based on its potential for unlawful use "could limit further development of beneficial technologies."[28] The Court observed that "[t]he more artistic protection is favored, the more technological innovation may be discouraged" and that administering copyright law is "an exercise in managing the trade-off."[29] However, the Court found compelling reasons why (contrary to the Ninth Circuit's analysis) *Sony* did not control. It noted that under the staple article of commerce doctrine, liability can be imposed where the evidence shows "more acute fault than the mere understanding that some of one's products will be misused."[30] As it found ample evidence of "more acute fault" on the part of Grokster and StreamCast—namely, "statements [and] actions directed to promoting infringement"[31]—the Court held that *Sony* did not apply.

Looking to the doctrine of patent inducement, the Court held that "one who distributes a device with the object of promoting its use to infringe copyright, as shown by clear expression or other affirmative steps taken to foster infringement, is liable for the resulting acts of infringement by third parties."[32] The Court cautioned that "mere knowledge of infringing potential or of actual infringing uses" would not be enough to subject a distributor to inducement liability.[33] Instead, inducement premises liability on "purposeful, culpable expression and conduct" and thus "does nothing to compromise legitimate commerce or discourage innovation having a lawful promise."[34] Based on evidence of the defendants' support for and encouragement of infringement by users, the Court reversed the grant of summary judgment. On remand, the district court found StreamCast liable after Grokster settled.[35]

* * *

The concept of inducing infringement had long been a nominal element of the common-law contributory infringement standard, but it took a clever effort to circumvent *Napster* and to exploit *Sony* to prod the Supreme Court to give new definition to the concept of inducement in copyright law. In *Grokster*, the Supreme Court refined the law of secondary infringement to plug a hole the lower courts, hewing to *Sony*, had allowed Grokster and StreamCast to exploit. *Grokster* now gives content owners a new weapon against bad actors whose distance from, and lack of knowledge of, specific infringing acts otherwise might allow them to escape liability.[36] It is a good example of the legal cat catching the Internet mouse.

III. Space-Shifting

In *Sony*, the Supreme Court held that it was fair use for private individuals to "time-shift" television programs by taping the broadcasts using the Sony Betamax video cassette recorder for viewing when they chose programs they had been invited to view over the air for free. A variation on this concept informed the business model for a service offered by MP3.com. In 2000, MP3.com launched My.MP3.com, which allowed subscribers who could demonstrate that they owned copies of CDs to listen to the recordings over the Internet. MP3.com did this by purchasing thousands of CDs, copying them onto its servers, and streaming them over the Internet at the request of subscribers. The concept was that the service would function as a virtual CD "storage locker," allowing users to "space shift" their CDs, with MP3.com's streamed CDs taking the place of their own.

The service was designed to avoid the legal quagmire then confronting Napster, which, as discussed above, allowed users to share music files with others who had not purchased the songs (which is why its space-shifting defense failed).[37] MP3.com's service was an effort to enhance the user's listening opportunities without impairing the market for the sound recordings, since use of the service was contingent on having purchased the songs.

The problem was that this virtual substitute for playing one's own CD involved the making of an unauthorized copy by MP3.com. The district court in *UMG Recordings, Inc. v. MP3.com*[38] held on summary judgment that this copying was not fair use because it involved an unauthorized, commercial, nontransformative reproduction of entire sound recordings that "invade[d] plaintiffs' statutory right to license their copyrighted sound recordings to others for reproduction."[39] That decision was not appealed; MP3.com settled for $53.4 million in exchange for the right to use UMG's catalogue. The service was eventually discontinued.

MP3.com illustrates the limited latitude online service providers have under the doctrine of fair use to engage in what is technically a violation of an exclusive copyright right for a commercial purpose. This is so even where the defendant attempts to step "virtually" into the shoes of its users by facilitating acts the users could, in theory, lawfully do themselves—*i.e.*, engage in a private performance of a sound recording.

Whereas the Supreme Court in *Grokster* had to craft what was arguably a new cause of action (inducement) to capture conduct plainly intended to promote, encourage, and facilitate infringement, in *MP3.com* the court simply applied the fair use doctrine in a new context. Some commentators have argued that Judge Rakoff erred in not construing fair use to accommodate a socially useful new service that did not supplant sales of the plaintiff's CDs.[40] Yet the decision shows that just because a commercial service is innovative and arguably does not displace sales (as opposed to licensed uses) of the plaintiff's work does not mean it will be found to be transformative—the key to a viable fair use defense. This obstacle to creating an Internet-based analogue to lawful private conduct is the kind of issue Congress may well take up as it attempts to modernize the Copyright Act.

IV. Search Engines

MP3.com aside, unlicensed digital copying of entire works for a commercial purpose can be fair use. Notably, courts have held that search engines and other services that allow users to locate copyrighted material engage in fair use when they display thumbnail images or cache copies of copyrighted works, because uses are transformative and do not usurp the market for the original works. For example, in *Perfect 10 v. Amazon, Inc.*,[41] the Ninth Circuit observed that "even making an exact copy of a work may be transformative" so long as the copy "serves a different function than the original work."[42] The Court found that Google used Perfect 10's images "in a new context to serve a different purpose."[43] In *Kelly v. ArribaSoft Corp.*,[44] the Ninth Circuit found that the defendant's search engine functioned "as a tool to help index and improve access to images on the [I]nternet and their related web sites" and that the defendant's use of the plaintiff's images served "a different function than [the plaintiff's]—improving access to information on the [I]nternet versus artistic expression."[45]

More recently, in *Authors Guild, Inc. v. Hathitrust*,[46] the district court relied on the search-engine decisions to hold that a database created by Google that provided snippets from millions of copyrighted books in response to search requests was a transformative fair use:

> The use to which the works in the [database] are put is transformative because the copies serve an entirely different purpose than the original works; the purpose

> is superior search capabilities rather than actual access to copyrighted material. The search capabilities of the [database] have already given rise to new methods of academic inquiry such as text mining.[47]

The court went on to find that the defendants were engaged in fair use despite the plaintiffs' contention that Google made 12 unauthorized copies of each work in the digitization process. That ruling is now on appeal to the Second Circuit.

The search engine/searchable database cases demonstrate that fair use is flexible enough to accommodate, under the "transformative" rubric, uses that may seem to be clearly infringing because they involve exact digital copying. Transformativeness, in these cases, takes the form of new functionality that enhances access to information without supplanting the market for the original work rather than new content creation. The fact that functionally transformative services advance the public interest in the dissemination of information without displacing the market for the originals aligns them with the purposes of copyright law. The search engine cases have moved the fair use doctrine toward a careful balance of technological innovation with copyright enforcement along the lines of what the Supreme Court sought to achieve in *Grokster*.[48]

V. Digital Retransmission of Television Broadcasts

New digital technology has also tested the limits of the public performance right, as illustrated by recent lawsuits pitting copyright owners against start-up services that stream secondary transmissions of television broadcasts to subscribers over the Internet. These cases exemplify the law/technology cat-and-mouse game.

Section 106(4) of the Copyright Act gives copyright owners the exclusive right to perform the copyrighted work "publicly." Section 101 provides that to perform a work "publicly" means "to transmit or otherwise communicate a performance or display of the work…to the public, by means of any device or process, whether the members of the public capable of receiving the performance or display receive it in the same place or in separate places and at the same time or different times." A question raised in recent litigations is whether user-specific transmissions of copyrighted programs from unique copies of programs are public performances within the meaning of the "transmit" clause. (The cases also involve claimed violations of the plaintiffs' reproduction rights.)

In *Cartoon Network, LP v. CSC Holdings, Inc.*,[49] the §106(4) issue was whether the operation of Cablevision's "Remote Storage" (RS) Digital Video Recorder (DVR) system violated the public performance rights of the copyright owners of the programs transmitted to subscribers. Cablevision's remote DVR system allowed customers who did not have their own DVR to "record cable programming on central hard drives housed and maintained by Cablevision at a 'remote' location."[50] Users could play the stored programs on their television sets using a remote control and a standard cable box equipped with RS-DVR software. The plaintiffs—the producers of copyrighted television programs and movies—claimed that this violated their public performance rights.

Cablevision argued that the transmissions, although performances, were not "to the public," because each transmission "emanates from a distinct copy of a program uniquely associated with one customer's set-top box and intended for that customer's exclusive viewing in his or her home."[51] The district court (Judge Denny Chin, who now sits on the Second Circuit) rejected this argument on the ground that Cablevision transmitted the same program to members of the public and that the statute contemplated viewing of the work at different times and in different places.[52]

The Second Circuit reversed. The Court observed that the statutory language "capable of receiving the performance" being transmitted indicates that "the transmission of a performance is itself a performance."[53] Therefore, the relevant question, in the Court's view, was who was "capable of receiving" *the particular transmission*. The Court concluded that no public performance occurred because "each RS-DVR transmission is made using a single unique copy of a work, made by an individual subscriber, one that can be decoded exclusively by that subscriber's cable box," such that "only one subscriber is capable of receiving any given RS-DVR transmission."[54]

Recognizing that its ruling could become a roadmap for circumventing the public performance right, the Court emphasized that its holding "does not generally permit content delivery networks to avoid all copyright liability by making copies of each item of content and associating one unique copy with each subscriber to the network, or by giving their subscribers the capacity to make their own individual copies."[55] The Court may have been suggesting that the reproduction right will serve as a brake on this strategy.

The challenge implicitly presented by *Cablevision* was taken up by Aereo, Inc. (Aereo), a service backed by media mogul Barry Diller, which offers subscribers access to streamed over-the-air local television broadcasts on computers or mobile devices. Users can choose to either watch a program as it is being aired or record it and watch it later, viewing the transmission on their computers or mobile devices via the Internet. The system was designed specifically to conform to *Cablevision*: each customer is assigned its own dime-sized antenna, clustered on circuit boards maintained by Aereo, each time he or she uses the system, and Aereo's system "creates a unique copy of each television program for each subscriber who requests to watch that program, saved to a unique directory on Aereo's hard disks assigned to that user."[56]

The plaintiffs argued that the user-specific copies made by Aereo "should be viewed as merely facilitating the transmission of a single master copy…rather than as copies from which a distinct transmission is made."[57] The district court disagreed, finding the copies made by Aereo "not materially distinguishable from those in *Cablevision*," where the Court found that the transmission was made "from those copies rather than from the incoming signal."[58] Under *Cablevision*, the *Aereo* court held, the relevant performance is not the original broadcast but the transmission by Aereo to each of its subscribers. As each transmission to an Aereo subscriber is made from a unique copy of the program, the performance of that copy is a noninfringing private performance.[59]

Echoing the Second Circuit, the *Aereo* court cautioned that it did not accept Aereo's argument that "the creation of any fixed copy from which a transmission is made always defeats a claim for a violation of the public performance right."[60] Such a rule, it noted, "would eviscerate the transmit clause given the ease of making reproductions before transmitting digital data."[61] The court observed, however, that the use of individual antennas "reinforce[s] the conclusion that the copies created by Aereo's system [were] unique and accessible only to a particular user, as they indicate that the copies are created using wholly distinct signal paths."[62]

Finding the plaintiffs not likely to succeed on the merits, the court denied the preliminary injunction motion. The plaintiffs appealed, and the Second Circuit affirmed in a 2-1 decision over a dissent by Judge Denny Chin (who as a district court judge had been reversed in *Cablevision*).[63] The majority, in an opinion by Judge Christopher F. Droney, agreed with the district court that *Cablevision* controlled the outcome. Under *Cablevision*, the Court held, it is the audience of the particular transmission, not of the original broadcast, that was determinative for purposes of the "transmit" clause.[64] As Aereo used both discrete copies and discrete antennas for each subscriber's transmission, its performances were private and thus not actionable.[65] On May 13th, Aereo moved for summary judgment, arguing that under the Second Circuit's ruling it is not liable for violating section 106(4) and that under *Sony* it is not contributorily liable for copying initiated by its users.

Meanwhile, a district court in California that was not bound by *Cablevision* evaluated a service modeled on Aereo called Aereokiller and came to the opposite conclusion. In *NBCUniversal Media, LLC v. Barry Driller, Inc*,[66] Judge George H. Wu held that the Second Circuit's reading of the "transmit" clause was contrary to precedent in the Ninth Circuit. He noted that neither the statute nor the legislative history required that members of the public receive the performance from the same transmission.[67] To the contrary, in Judge Wu's view, the statute "does not by its express terms require that two members of the public receive the performance from the same transmission"; rather, the statute is concerned with "the performance of the copyrighted *work*, irrespective of which copy of the work the transmission is made from."[68] Judge Wu's order entering an injunction against Aereokiller is on appeal to the Ninth Circuit.

The potential for a circuit split arising out of *Aereo* and *Aereokiller* raises the possibility of Congress stepping in to clarify the law applicable to retransmission services (as well as the possibility of Supreme Court review). However the issue is ultimately resolved in the courts, these cases exemplify the dynamic interplay of law and technology, with aggressive entrepreneurs seeking to thread a needle in the law technologically in order to offer third party content in a new way.

VI. Translating the First Sale Doctrine into the Digital Realm

An effort reminiscent of MP3.com to translate the first sale doctrine into the realm of MP3 music files is at issue in *Capitol Records, LLC v. ReDigi Inc*.[69] The first sale doctrine, codified in §109 of the Copyright Act, allows the purchaser of a physical copy of a copyrighted work to sell or otherwise transfer that copy without violating copyright law. Does this defense protect a reseller of "used" digital music files?

In November 2011, the *New York Times* reported that a "legitimate secondhand marketplace for digital music" had "never been tried successfully," but that a new company, ReDigi Inc. (ReDigi), had begun offering what it promoted as "a legal and secure way for people to get rid of unwanted music files and buy others at a discount."[70] Songs on the service cost 79 cents—as much as 50 cents less than new tracks at iTunes—and users get coupons worth 20 cents for each song they upload for sale, with ReDigi collecting a fee of five to 15% on each sale.[71]

Capitol Records LLC. (Capitol) sued ReDigi in the Southern District of New York in January 2012, asserting claims for direct, contributory, and vicarious infringement, as well as inducement. ReDigi insisted that it complied with copyright law by allowing users to sell only files confirmed to have been purchased (such as from iTunes) and by deleting any copies of the files sold on users' computers or accompanying devices—thereby mimicking the physical transfer of a copy that would be protected by the first sale doctrine in the offline world. Capitol contended, however, that §109, which permits the owner of "a particular copy or phonorecord lawfully made under this title" to sell that copy or phonorecord, does not apply to ReDigi because ReDigi does not own the copies and because it makes new copies rather than transferring the particular copy sold. Instead, ReDigi and its users "duplicate digital files both in uploading and downloading discrete copies distinct from the original file that originally resided on a user's computer."[72] The analogy to a used record store is inapt, Capitol alleged, because used record stores "do not make copies to fill their shelves."[73]

The district court denied Capitol's motion for a preliminary injunction based on a finding of no irreparable harm, but in its March 30, 2013 ruling on cross-motions for summary judgment, the court rejected ReDigi's first sale defense. The court found that ReDigi makes unauthorized copies of its users' music files and that §109(a) expressly does not apply to the reproduction right. Nor, the court held, did §109(a) provide a defense to Capitol's §106(3) distribution right claims because §109(a) protects "only distribution by 'the owner of a *particular* copy or phonorecord…of *that* copy or phonorecord."[74] The court found that rather than transferring a particular copy, ReDigi was making an additional copy; the fact that it may delete the original copy is irrelevant. As the court stated: "[I]t is the creation of a *new* material object and not an *additional* material object that defines the reproduction right."[75] Moreover, §109(a) only applies to copies "lawfully made," and the copies made by ReDigi were *not* lawfully made.[76]

The court pointed out that back in 2001 the Copyright Office, in its report on the DMCA, considered whether the first sale doctrine applied—or should apply—to digital transfers. It concluded that it did not, writing:

> The tangible nature of a copy is a defining element of the first sale doctrine and critical to its rationale. The digital transmission of a work does not implicate the alienability of a physical artifact. When a work is transmitted, the sender is exercising control over the intangible work through its reproduction, rather than common law dominion over an item of tangible personal property.[77]

The report also noted that digital transmissions "can adversely affect the market for the original to a much greater degree than transfers of physical copies."[78] The court further handily rejected ReDigi's fair use defense, finding that all of the statutory fair use factors weighed against fair use.[79]

The court therefore awarded summary judgment to Capitol as to direct, contributory, and vicarious infringement with respect to its reproduction and distribution right claims (Capitol did not seek summary judgment on its display right and public performance right claims). ReDigi has indicated that it intends to appeal, and it has noted that the decision expressly does not address the legality of its updated ReDigi 2.0.[80]

The ReDigi case is another example of an entrepreneur seeking (so far) unsuccessfully to translate a traditional copyright infringement defense into the digital realm. It again raises the question of whether the first sale doctrine needs to be updated to accommodate resales of digital copies.[81]

VII. Conclusion

The cases discussed in this article exemplify the new challenges with which rapidly evolving digital technology has presented the courts, as well as how innovative ways of delivering third party content via the Internet have been shaped—and, in some cases, stymied—by copyright law. On a case-by-case basis, courts have sought to achieve the proper balance between allowing room for innovation while ensuring adequate protection of the exclusive rights of copyright owners.

In this author's view, the courts have generally done a good job of allowing a sufficiently wide berth for transformative services, such as search engines, without allowing material harm to copyright owners to go unaddressed. The judicial history sketched here reflects some of the issues and policy considerations that should come into play as Congress looks to update the Copyright Act.

Endnotes

1. *A&M Records, Inc. v. Napster, Inc.*, 114 F. Supp. 2d 896 (N.D. Cal. 2000).
2. *See Gershwin Publ'g Corp. v. Columbia Artists Mgmt., Inc.*, 443 F.2d 1159, 1162 (2d Cir. 1971) ("one who, with knowledge of the infringing activity, induces, causes or materially contributes to the infringing conduct of another, may be held liable as a 'contributory' infringer").
3. 114 F. Supp. 2d at 920-22.
4. *Id.* at 927.
5. *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1014 (9th Cir. 2001).
6. 464 U.S. 417 (1984).
7. *Id.* at 1020.
8. *Id.*
9. *Id.* at 1021 (emphasis added).
10. *Id.* at 1022.
11. *Id.*
12. *Id.* at 1023.
13. *Id.*
14. *Id.* at 1023-24.
15. *Id.*
16. *Id.* at 1027.
17. *Id.*
18. *Id.*
19. *Id.*
20. *See* 17 U.S.C. § 512(m)(1); *Viacom Int'l, Inc. v. YouTube, Inc.*, 676 F.3d 19, 35 (2d Cir. 2012) (noting that §512(m)(1) of the DMCA provides that safe-harbor protection "cannot be conditioned on affirmative monitoring by a service provider" and that this "limits—but does not abrogate" the doctrine of willful blindness, which may, in appropriate circumstances, "demonstrate knowledge or awareness of specific instances of infringement").

21. *See* Alec Klein, *Going Napster One Better; Aimster Says Its File-Sharing Software Skirts Legal Quagmire*, Wash. Post, Feb. 25, 2001, at A1.

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

23. *Id.* at 651.

24. *See Columbia Pictures Indus., Inc. v. Fung*, 710 F.3d 1020, 1025-26 (9th Cir. 2013) (describing the differing structures of various peer-to-peer networks).

25. *Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd.*, 259 F. Supp. 2d 1029 (C.D. Cal. 2003), *aff'd*, 380 F.3d 1154 (9th Cir. 2004), *rev'd*, 545 U.S. 913 (2005), *on remand*, 454 F. Supp. 2d 966 (C.D. Cal. 2006).

26. 545 U.S. at 923.

27. *Id.* at 923-24.

28. *Id.* at 929.

29. *Id.* at 928.

30. *Id.* at 922-23.

31. *Id.* at 935.

32. *Id.* at 936-37.

33. *Id.* at 937.

34. *Id.* The Ninth Circuit has subsequently made clear that inducement is not limited to the distributor of a product; instead, "one can infringe a copyright through culpable action resulting in the impermissible reproduction of copyrighted expression, whether those actions involve making available a device or product providing some service used in accomplishing the infringement." *Columbia Pictures*, 710 F.3d at 1033.

35. 454 F. Supp. 2d 966 (C.D. Cal. 2006).

36. *See generally Columbia Pictures*, *supra* n.24.

37. *Napster*, 239 F.3d at 1019.

38. 92 F. Supp. 2d 349 (S.D.N.Y. 2000).

39. *Id.* at 352.

40. *See, e.g.*, Jim Trageser, *Judge hides from technology in MP3.com decision*, Jim Trageser's trageser.com, http://trageser.com/essays/essay-mp3.php (accessed Feb. 15, 2013).

41. 508 F.3d 1146 (9th Cir. 2007).

42. *Id.* at 1165.

43. *Id.*

44. 336 F.3d 811 (9th Cir. 2003).

45. *Id.* at 818. *See also Field v. Google Inc.*, 412 F. Supp. 2d 1106, 1120 (D. Nev. 2006) (finding Google's "cached" links to copyrighted works were transformative because they serve "different and socially important purposes" than the original works—offering access to otherwise inaccessible web pages—and did not supersede them).

46. No. 11 CV 63551 (HB), 2012 WL 4808939 (S.D.N.Y. Oct. 10, 2012).

47. *Id.* at *11.

48. It should be noted that a New York district court recently held that a subscription news clipping service, Meltwater, was not a search engine, and was not protected by fair use, because it failed to demonstrate that "customers actually use its service to improve their access to the underling news stories that are excerpted in its news feed." *Associated Press v. Meltwater U.S. Holdings, Inc.*, No. 12 Civ. 1087, 2013 WL 1153979, *13 (S.D.N.Y. Mar. 21, 2013).

49. 536 F.3d 121, 131 (2d Cir. 2008).

50. *Id.* at 124.

51. *Id.* at 126.

52. *Id.*

53. *Id.* at 134.

54. *Id.* at 135.

55. *Id.* at 139.

56. *American Broadcasting Companies, Inc. v. Aereo, Inc.*, 874 F. Supp. 373, 386 (S.D.N.Y. 2012).

57. *Id.* at 385.

58. *Id.*

59. *Id.* at 386.

60. *Id.* at 396.

61. *Id.*

62. *Id.*

63. *WNET v. Aereo, Inc.*, 712 F.3d 676 (2d Cir. 2013).

64. *Id.* at 689-90.

65. *Id.* at 690, 693.

66. No. CV-12-6950-GW, 2012 WL 6784498 (C.D. Cal. Dec. 27, 2012).

67. *Id.* at *3.

68. *Id.* at *4.

69. No. 12 Civ. 0095 (S.D.N.Y. filed Jan. 6, 2012).

70. Ben Sisario, *Site to Resell Music Files Has Critics*, N.Y. Times, Nov. 14, 2011.

71. *Capitol Records, LLC v. ReDigi, Inc.*, No. 12 Civ. 95 (RJS), 2013 WL 1286134 (S.D.N.Y. Mar. 30, 2013).

72. Complaint, *Capitol Records, LLC v. ReDigi, Inc.*, No. 12 Civ. 95 (filed Jan. 6, 2012), ¶ 36.

73. *Id.* ¶ 4.

74. 2013 WL 1286134 at *10 (quoting 17 U.S.C. §109(a)) (emphasis by court).

75. *Id.* at *5.

76. *Id.*

77. U.S. Copyright Office, DMCA Section 104 Report xix (2001).

78. *Id.*

79. 2013 WL 1286134 at *8-9.

80. *See* Ben Sisario, *A Setback for Resellers of Digital Products*, N.Y. Times, Apr. 2, 2013, at B3; *Capitol Records*, 2013 WL 1286134, *14.

81. *See* Peter J. Karol, *How Do You Solve a Problem Like ReDigi*, Law360, http://www.law360.com/technology/articles/432093/how-do-you-solve-a-problem-like-redigi- (Apr. 12, 2013).

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The Intersection of Immigration and Entertainment Law

By Michael Cataliotti

Introduction

Artists seeking to enter the U.S. to engage in productions requiring their international talents have only so many visa options available to them: the H-1B, H-2B, P, and O, the last of which is most often the best option. The O visa, the visa for individuals of "extraordinary ability," is going to be the best choice, one might even say the most *extraordinary* choice, but because there are potentially other options, this article will review them, even ever so briefly.

H-1B: The Visa Status for Skilled Workers and Models

The H-1B is generally inapplicable to most artists, but there are some—graphic designers readily come to mind—who will often qualify for the H-1B, thereby making it a feasible option for some. As a result, a brief overview of the options should suffice with the potential for a more detailed breakdown to come. The H-1B process requires three key considerations: (1) Does the prospective beneficiary possess a bachelor's degree or equivalent; (2) Does the position in which the prospective beneficiary will work require a bachelor's degree or equivalent, or can the position be filled by someone with an associate's or practical training; and (3) Is the pay for the position equal or above that which has been determined by the Secretary of Labor (of the Department of Labor)?[1]

Another way in which the H-1B may appear a bit more frequently for those entertainment or arts attorneys dealing primarily with fashion is in the representation of models,[2] but being that this is incredibly specific and limited this topic will save for another article. It is important to note here the simple fact that the H-1B visa may be a viable option for a model, depending upon his or her credentials and supporting evidence.

H-2B: The Useless Visa

The H-2B is essentially dead due to bureaucratic backlog and confusion between the Department of Labor and the Department of Homeland Security. Sadly, there is nothing more to say about the H-2B other than it was fun while it lasted, but the good times have since passed. Most recently, several courts have affirmed the moratorium on processing H-2B labor certifications, and so the U.S. Citizenship & Immigration Service (the Service), stopped processing them in March 2013. Since then, it has resumed processing all H-2B petitions for temporary non-agricultural workers, but the issues and confusion still remain.[3] As such, for artists, the H-2B is gone.

P: Internationally Renowned Acts…Hello Siegfried and Roy

P visa classification is most often the visa of choice for musicians or athletes who are coming to the U.S. for a tour or season of play.[4] The fundamental consideration at the outset is that "[t]he entertainment group […] as a unit must be internationally recognized as outstanding in the discipline and must be coming to perform services which require an internationally recognized entertainment group[…]."[5] As such, it does not matter so much if the individual beneficiary has achieved international renown, but rather the group in which the beneficiary is part of must have achieved such recognition. To demonstrate this, the group must be able to demonstrate that it meets three out of the six designated criteria, as follows:

- Performed and will perform as a starring or leading entertainment group in production or events which have a distinguished reputation as evidenced by critical reviews, advertisements, publicity releases, publications, contracts, or endorsements;
- Achievement of international recognition and acclaim for outstanding achievement in its field as evidenced by reviews in major newspapers, trade journals, magazines or other published material;
- Performed and will perform services as a leading or starring group for organizations and establishments that have a distinguished reputation as evidenced by articles in newspapers, trade journals, publications, or testimonials;
- A record of major commercial or critically acclaimed successes, as evidenced by indicators such as ratings, box office receipts, record, cassette or video sales, and other achievements as reported in trade journals, major newspapers or other publications;
- Receipt of significant recognition for achievements from critics, organizations, government agencies or other recognized experts in the field; and
- Commanded and will command a high salary or other substantial remuneration for services comparable to others similarly situated in the field, as evidenced by contracts or other reliable evidence.[6]

O: Individuals of Extraordinary Ability, Playfully Nicknamed "Extraordinary Aliens" or "Marvin the Martians"

Finally, we reach the O visa, the one status that labels the beneficiary as an individual of "extraordinary ability" and will most often be the go-to for the non-U.S. artist seeking to enter America in order to engage in his or her craft. The O visa comes in three possible classifications: O-1A (most often utilized for businessmen and athletes); O-1B (artists, entertainers, performers, and the like of extraordinary ability); and O-2 (an individual who provides integral or essential support to an O-1 holder). With each classification comes a specific set of criteria to satisfy and intricate considerations; however, for the entertainment or arts attorney who encounters an individual trying to enter the U.S. under O-1B status, here are some basic points to remember:

1. The beneficiary's qualifications must satisfy three out of six evidentiary categories unless he or she has received an award such as or on the level of a Grammy, Academy Award, or the like;[7]
2. The petition requesting O-1B status must be lodged by a valid U.S. entity, individual, or U.S. based entity/individual acting on behalf of a foreign company;[8]
3. The petitioner (a/k/a "sponsor"), must affirm that it has work for beneficiary throughout the duration of O-1 status;[9]
4. The petitioner and beneficiary can have three different employment relationships:
    a. The petitioner can act as the sole employer of the beneficiary throughout the duration of O-1 status;
    b. The petitioner can act as an agent on behalf of multiple employers who seek to utilize the beneficiary's extraordinary abilities; or
    c. The petitioner can both employ the beneficiary and act as an agent on behalf of multiple employers throughout the duration of O-1 status.[10]
5. While there is no specified maximum number of times that an individual may be the recipient of O-1 status, the longest duration granted for any one petition is three years;[11] and
6. The visa, once approved, belongs to *the petitioner* and not the beneficiary.

To round out this basic introduction to the O-1B visa, here are the categories mentioned at bullet point 1, of which the beneficiary needs to demonstrate satisfaction of three:

- Performed and will perform services as a lead or starring participant in productions or events which have a distinguished reputation as evidenced by critical reviews, advertisements, publicity releases, publications, contracts or endorsements;
- Achieved national or international recognition for achievements, as shown by critical reviews or other published materials by or about the beneficiary in major newspapers, trade journals, magazines, or other publications;
- Performed and will perform in a lead, starring, or critical role for organizations and establishments that have a distinguished reputation as evidenced by articles in newspapers, trade journals, publications, or testimonials;
- A record of major commercial or critically acclaimed successes, as shown by such indicators as title, rating or standing in the field, box office receipts, motion picture or television ratings and other occupational achievements reported in trade journals, major newspapers or other publications;
- Received significant recognition for achievements from organizations, critics, government agencies or other recognized experts in the field in which the beneficiary is engaged, with the testimonials clearly indicating the author's authority, expertise and knowledge of the beneficiary's achievements; and
- A high salary or other substantial remuneration for services in relation to others in the field, as shown by contracts or other reliable evidence.[12]

You may hear reference to "comparable evidence" being utilized; however the Service has made it quite difficult to utilize that category by indicating that it will only be permissible "[i]f the above standards *do not readily apply to the beneficiary's occupation in the arts* […, however] (this exception *does not apply to the motion picture or television industry*)" [emphasis added].[13] As those categories above can work with nearly each and every area of the arts, comparable evidence is simply a moot point.

Of course, this only scratches the surface, thereby getting the arts-immigration juices flowing. Next time, there will be a more comprehensive overview of a key aspect of O visa status.

Endnotes

1. 8 CFR § 214.2(h)(4)(iii)(A)(1); (B)(1-3); and (C)(1-2) (2012).
2. 8 CFR § 214.2(h)(4)(i)(A)(3) (2012).
3. USCIS Resumes Adjudication of All H-2B Petitions Following Publication of Interim Final Rule, April 25, 2013, http://www.uscis.gov/portalsite/999uscisuitem.5af9bb95919f35e66f614176543f6d1a/?vgnextoid=4cf5b6f39b14e310VgnVCM100000082ca60aRCRD&vgnextchannel=e7801c2c9be44210VgnVCM100000082ca60aRCRD.
4. 8 CFR § 214.2(p)(1)(ii)(A) (2012); Section 101(a)(15)(P) of the Immigration and Nationality Act (2012).
5. 8 CFR § 214.2(p)(4)(i)(B) (2012).
6. 8 CFR § 214.2(p)(4)(iii)(A) (2012).
7. 8 CFR § 214.2(o)(3)(iv) (2012).
8. 8 CFR § 214.2(o)(2)(i) (2012).
9. *Id*.
10. 8 CFR § 214.2(o)(2)(i) and (v)(E) (2012).
11. USCIS O-1 Visa: Individuals with Extraordinary Ability or Achievement, March 16, 2011, http://www.uscis.gov/portalsiteuscismenuitemeb1d4c2a3e5b9ac89243c6a7543f6d1a/?vgnextoid=b9930b89284a3210VgnVCM100000b92ca60aRCRD&vgnextchannel=b9930b89284a3210VgnVCM100000b92ca60aRCRD.
12. 8 CFR § 214.2(o)(3)(iv)(B)(1-6) (2012).
13. 8 CFR § 214.2(o)(3)(iv)(C) (2012); 8 CFR § 214.2(o)(3)(v)(B) (2012).

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Over-the-Top, Over Their Heads: The Need for Legal Reform in Light of *American Broadcasting Companies v. Aereo*

By Joshua Bloomgarden

Introduction

Not so long ago, it would have seemed absurd to many that someday, a man could watch in real-time NBC's "Nightly News" on his cell phone while walking his dog down Broadway, a first-year associate could momentarily turn her eyes away from document review to catch a glimpse of CBS's live coverage of Super Bowl XLVII on her tablet computer, and a law student could be watching ABC's "Jeopardy!" during his evening class. However, the reality is that this convergent type of media consumption is increasingly happening every day as part of a "cord-cutting" phenomenon.[1] For many, Internet-facilitated technological convergence represents an exciting shift in the telecommunications landscape, giving the public a vibrant array of consumption choices.[2] Yet, in spite of the apparent public benefits, cord-cutting presents challenges to the existing legal framework. Indeed, both communications and copyright law are currently outmoded and ill-equipped to deal with the potential policy issues posed by these technological developments, particularly as they affect broadcast television (broadcast TV). In view of the public trustee obligations that the Federal Communications Commission (the FCC) has imposed on broadcasters, the awkward attempt to apply standing doctrine to previously unknown technology is worrisome. If the current course continues, unintended policy consequences may result. Thus, a hastened and unbridled shift to providing broadcast TV content over the Internet without properly tailored legislation or regulations may end up harming the interests of the viewing public more than it furthers those interests.

The ongoing *American Broadcasting Companies, Inc. v. Aereo, Inc.*[3] litigation provides a paradigmatic example to help one understand both the threat to the public interest and the corresponding necessity for regulations. At issue in *Aereo* is an upstart Internet-based company which intercepts the free, over-the-air broadcast TV signals, sending the signals via tiny antennae to its online subscribers, all for a fraction of what a basic cable plan costs.[4] While the crux of the broadcasters' claim in the *Aereo* case is grounded in copyright law principles, any decision will have far-reaching implications for communications law and policy inasmuch as it affects the viability of broadcast TV. Should Aereo win, the broadcasters will effectively lose considerable control over and value in their programming. The trouble is, it is not at all clear that Aereo, despite its free-riding, will be found to be running afoul of copyright law.[5] Consequently, as Aereo and other imitators expand their reach, broadcasters may no longer be able to economically sustain themselves, thereby depriving society of the public goods that broadcast TV provides.

Regardless of the outcome of *Aereo*, it is clear that watching television programs over the Internet is not a transient fad, but rather a phenomenon to be addressed. Given the enduring importance of broadcast TV to the public, appropriate legislative or regulatory action should be taken to harmonize communications and copyright laws in order to strike a balance which enables the expansion of available programming on the Internet, while ensuring the survival of both the medium and public interest obligations of broadcast TV.

> *"[B]oth communications and copyright law are currently outmoded and ill-equipped to deal with the potential policy issues posed by…technological developments, particularly as they affect broadcast television."*

Part I—The *Aereo* Litigation

On February 2012,[6] within a Brooklyn warehouse, Aereo, a New York City-based technology company, deployed an army of thousands of dime-sized antennae. Each was equipped with the ability to receive free, "over-the-air" broadcast TV signals.[7]

These antennae are connected to the Internet, enabling Aereo subscribers to "rent" them and watch broadcast TV on laptops, smartphones, tablets, and other web-enabled devices.[8] The Aereo service allows subscribers both to watch live television programming and to record programming for later viewing, much in the way any other cable subscriber or over-the-air receiver with recording capabilities (such as DVR) might.[9] "The main difference between the 'watch' and 'record' functions is that the file saved to the hard disk is tagged as permanent while the data saved during the 'watch' function are not automatically retained unless the user clicks 'record' while the show is still running on the Web browser."[10] Thus, for New York City consumers seeking access to broadcast TV without the hassle or expense of wires, cable plans, or even television ownership, Aereo provides an attractive alternative.

From a business standpoint, Aereo is particularly appealing, as it can provide its services at a low cost. Indeed, Aereo neither qualifies for the Copyright Act's cable compulsory licensing regime for secondary transmissions of broadcast programming by cable systems,[11] nor does it need to negotiate a license with broadcasters.[12] However, broadcasters were not as enamored: within a matter of weeks, a series of broadcasters, including CBS, NBC, FOX, ABC, WNET, Telemundo, and PBS filed suit in the Southern District of New York, alleging copyright infringement and moving for injunctive relief.[13]

The *ABC v. Aereo* Litigation

Specifically, the broadcasters allege that Aereo violates the exclusive public performance rights it holds in the various broadcast programming that Aereo makes available to its subscribers.[14] Hence, the broadcasters argue that Aereo is running afoul of the Copyright Act's "transmit clause."[15] Purely from a copyright policy standpoint, this argument seems valid:

> A rational resolution of the issue requires discerning the purpose of giving the owner of a copyrighted work the exclusive right to perform it. The purpose is to prevent the form of free riding that consists of waiting for someone to spend money creating a valuable expressive work and then preventing him from recouping his investment by copying the work and selling copies at a price below the price the creator of the work would have to charge to break even.[16]

Nevertheless, for its part, Aereo responded that it is not doing anything illegal and is acting within the established precedent of *Cartoon Network, LP v. CSC Holdings, Inc.*[17] (*Cablevision*). In *Cablevision*, the Second Circuit held that the defendant's remote storage DVR service did not violate the plaintiffs' public performance rights because each programming "transmission is made to a single subscriber using a single unique copy produced by that subscriber…"[18] Thus, Aereo capitalized on the apparent similarities of the two services, presenting its argument by linking the two:

> [A]s in *Cablevision* [Aereo] effectively rents to its users remote equipment comparable to what these users could install at home, and that its activities are materially identical to those in *Cablevision* such that the Second Circuit's analysis and holding in that case are directly applicable, precluding any public-performance liability.[19]

The District Court agreed with Aereo, denying the broadcasters' motion for preliminary injunction on the basis of their being unable to prove the likelihood of success on the merits.[20] In yet another legal victory for Aereo, the Second Circuit affirmed.[21] Thus, given the architecture of Aereo's services, modeled on those of the *Cablevision* defendant, it seems as if the broadcasters will have a difficult time[22] dispelling the notion that Aereo is simply facilitating *private* performances.[23]

The Resulting Harm to Broadcasters

The District Court's refusal (and the Second Circuit's subsequent affirmation) to grant the broadcasters a preliminary injunction unquestionably threatens the survival of broadcast TV. In that vein, the District Court notably concluded that the broadcasters satisfied their burden to prove that they would suffer irreparable economic harm as a result of a denial of the injunction.[24] Despite the fact that Aereo can increase the number of eyeballs that view broadcast TV, more viewership will not necessarily translate to a benefit for broadcasters. Indeed, the court highlighted the loss of advertising revenues that broadcasters will experience from Aereo's free-riding activities:

> Aereo will damage Plaintiffs' ability to negotiate with advertisers by siphoning viewers from traditional distribution channels, in which viewership is measured by Nielsen ratings,[25] into Aereo' [sic] service which is not measured by Nielsen, artificially lowering these ratings.[26]

Thus, in the absence of a reliable means of quantifying viewership across distribution platforms, the advertising revenue generated by broadcasters may be deflated.[27]

Similarly, the court recognized that the denial of the injunction against Aereo would hamper broadcasters in their ability to collect statutorily guaranteed retransmission fees, the product of legislation currently requiring carriers to secure from broadcasters consent[28] to retransmit the broadcasters' signals engaging in good faith negotiations.[29] Under this legislation, multichannel video programming distributors (MVPDs)[30] are mandated to negotiate in good faith with broadcasters for the right to retransmit over-the-air programming, or to carry it at the broadcasters' election.[31] Thus, "those broadcasters that felt that they had sufficient leverage to extract compensation from cable systems were free to do so; while those that did not were able to invoke their (uncompensated) must-carry rights."[32] Hence, "[r]etransmission consent payments from [MVPDs] constitute major revenues to television broadcasting and increasingly, are a source of concern for some distributors who need the "must watch" programming on broadcast networks."[33] Yet, given potentially declining demand for broadcast TV wrought by Aereo's services,[34] economics dictate that broadcasters will lose leverage and MVPDs are likely to pay less for retransmission consent. This point becomes even more salient in view of the fact that "Aereo's service has only just begun to operate on any significant scale and Aereo has conceded that…it intends to expand its operations."[35] Moreover, in view of Aereo's unsanctioned freeriding, satellite and cable carriers may be less inclined to pay retransmission fees to broadcasters at all, choosing instead to adapt the same technology that Aereo uses.[36]

Lastly, Aereo poses a formidable threat to broadcasters as it undermines their ability to control their own content. Not only do broadcasters "stream their content over their own websites in which they have invested substantial sums, [providing] an opportunity for [them] to engage in marketing and demographic research to build goodwill,"[37] but they also "license a variety of entities, including Hulu.com…and Apple…to distribute programming over the Internet on a time-delayed basis."[38] With Aereo's rise, broadcasters' business arrangements are adversely affected, potentially disincentivizing further investments to make broadcast TV content available online.

Ultimately, it is clear that Aereo's very existence constitutes a serious disruption to broadcasters' revenue streams, as "[c]ontinued live retransmissions of copyrighted television over the Internet without consent would threaten the entire industry."[39] As such, many broadcasters' programming quality would suffer while other local broadcasters would be forced to shut down. While it is the case that Aereo and similar freeriding services have created new means by which consumers have expanded broadcast consumption choices, it is also clear that, under the current regulatory and legal framework, they are at odds with the public interest.[40]

Part II—The Public Interest Benefits of Broadcast TV

Since its inception, broadcast TV has played an indelible role in American society. "[Broadcasters'] television programming provides a valuable service to the public, including,…educational, historic, and cultural programming, entertainment, an important source of local news critical for an informed electorate, and exposure to the arts."[41] Indeed, the FCC, D.C. Circuit and Supreme Court have all emphasized this role, viewing broadcasters as public trustees, vested with obligations that they must fulfill as a "quid pro quo" for receiving free, scarce licenses to the airwaves.[42]

Following in this tradition, pursuant to an Executive Order from President Bill Clinton, an Advisory Committee (the Committee) was established to report on the public interest obligations of broadcasters in light of the country's planned broadcasting transition from analog to digital signal.[43] While this transition helped to make scarcity arguments supporting the public interest obligations largely illusory, the Committee recognized that public interest regulations remain justified both by the benefit broadcasters receive from government-licensed spectrum[44] and the market's failure to benefit the public interest.[45] In its report, (dubbed the "Gore Report" for Vice President Al Gore), the Committee identified several public interest policy concerns[46] which it viewed as particularly significant and worthy of attention in the new era of broadcast TV. Amongst the recommendations the Committee advanced was a greater commitment to fostering localism, diverse and informed political discourse, and educational programming for children.[47]

Though companies like Aereo contribute to the television-Internet convergence which allow the public to have more convenient access to broadcast TV in the short term, such convenience must be stacked up against long term competing policy considerations embodied in copyright law. Specifically, "the public has a compelling interest in protecting copyright owners' marketable rights to their work and the economic incentive to continue creating television programming."[48] In the absence of regulations creating an alternate revenue stream for broadcasters, freeriders will detract from the overall quality and accessibility of broadcast programming, thus injuring the public.[49] On the other hand, some might respond that broadcast programming is not as significant as it once was given market changes and the emergence of cable television. However, these arguments overlook the market's shortcomings:

> the market alone may not provide programming that can adequately serve children, the governing process, special community needs, and the diverse voices in the country. To be sure, cable television's multiple channels have served commendably some of these needs… But cable channels…are not available to a large share of the populace, either because they are not carried on many cable systems or because cable itself is neither universally available nor free.[50]

The following section will examine several specific broadcast-related public goods—including those identified in the Gore Report—which likely would be severely compromised if the current legal regime prevails.

Local and Public Affairs Programming

For as long as the federal government has regulated the airwaves, localism has been viewed as an important public interest goal to be fulfilled by broadcasters.[51] Indeed, both Congress and the FCC have historically sought to ensure that local communities had access to quality public affairs programming, whether it be local news, weather, political coverage, sports, or emergency alerts. The localism-oriented legislative mandate can be found in Section 307 of the Communications Act, in which Congress delegated to the FCC the obligation to make "such distribution of licenses, frequencies, hours of operation, and of power among the several States and communities as to provide a fair, efficient, and equitable distribution of radio service to each of the same."[52] Accordingly, the FCC carried out its obligation to ensure that individuals had local access by choosing "to place at least one television station in as many communities as possible."[53] Thus, the FCC's decision to place licenses in the hands of local broadcast licensees meant that programming could be tailored specifically to the surrounding community's needs and interests, while contemporaneously connecting a national audience.[54]

Of course, broadcasters' continued consideration of local interests was as much a sound business decision as it was a public service.[55] Indeed, paying attention to market forces created a mutually beneficial feedback loop for broadcasters and the public alike. Thus, with an increase in audience came an influx of local advertising revenue, helping to sustain community broadcasters and to provide incentives for continued production and distribution of quality programming.

Years later, with the rise of cable (and later, satellite) networks, broadcasters were faced with increased competition which undermined their advertising revenue stream. Consequently, Congress sought to protect local broadcasters' interests while ensuring that those who could not afford cable had access to over-the-air signal, and those without access to over-the-air signal could still be connected with their surrounding communities.[56] Hence, "motivated in large part by concerns about localism and the possibility that technological and competitive changes in the television marketplace might adversely affect the extent to which local communities were receiving the news and information that addressed their specific needs, interests, and concerns,"[57] Congress enacted the "retransmission consent" and "must-carry" provisions as part of the Cable Television Consumer Protection and Competition Act of 1992[58] and, later, the Satellite Home Viewer Improvement Act.[59] The results of these new provisions meant that local broadcasters could remain in business and deliver quality programming to their respective communities.[60]

As previously mentioned, the existence of freeriders such as Aereo upsets the legislative intent behind both the retransmission consent and must-carry provisions by undermining broadcasters' leverage in negotiations, and potentially, eliminating this revenue stream. As such, broadcasters will be driven to the brink of financial ruin and will no longer be able to provide free quality programming—whether local or national—to the communities that the local broadcasters serve. Indeed, just as had been the case in 1992, "there is a substantial likelihood that…additional local broadcast signals will be deleted, repositioned, or not carried…[and] the economic viability of free local broadcast televisions and its ability to originate quality local programming will be seriously jeopardized."[61] Even though new technologies connect us with programming which originate from around the country if not the world, broadcast still links people to their local communities, playing an important role today which the public can scarcely afford to have subverted. In that vein, contrasted with the motivations of nonbroadcast television providers lies another salient point:

> [T]he bedrock principle of the American broadcast system continues to be localism. Whether it is local news, emergency alerts, weather information, election coverage, or sports; local television broadcasters provide these services and programming for free to communities across the country… And, […] locally-tailored advertising provides the opportunity for…hometown businesses to promote their goods and services.[62]

Under the current legal framework, the millions who depend on over-the-air signals to be connected to their communities may be deprived of their abilities to watch their local high schools' State Championship football games, let alone the Super Bowl.[63]

News and Coverage of Political Affairs

Related to localism and its goal of disseminating information to individuals within communities is the role broadcast TV plays in providing news and access to information regarding issues at all levels of government. As a result of the FCC's community-driven approach to broadcast, nearly every American was effectively enabled to become more involved in and engaged with the political process. "Broadcast television is an important source of information to many Americans. Though it is but one of many means for communication, by tradition and use for decades now it has been an essential part of the national discourse on subjects across the whole broad spectrum of speech."[64]

Given the fact that broadcast TV affords a powerful means of disseminating information and educating the electorate, it has widely been viewed as providing public goods. Indeed, this notion is grounded in both Justice Oliver Wendell Holmes and President James Madison's conceptions of the First Amendment.[65] While Holmes famously saw the First Amendment as the foundation for the "marketplace of ideas," Madison viewed the First Amendment as being "important as a way to ensure political equality, especially in the face of economic inequalities, and to foster free and open political deliberation."[66] As applied to the medium of broadcast TV, broadcasters argue these two notions can run counter to one another, since regulations tend to limit broadcasters' First Amendment rights, potentially distorting the marketplace. On the other hand, given the ubiquitous nature of broadcast, regulations encouraging programming can also be viewed as supporting the Madisonian concept of the First Amendment,[67] especially where the market fails to ensure political engagement.[68] The legal treatment of broadcasters has been informed by these foundational background principles.

As compared to other forms of media for mass communication, broadcast TV news programming is particularly unique for the fact that it has historically been subject to meaningful regulations,[69] based largely on the notion that the public has a stake in the government-licensed airwaves:

> The people as a whole retain their interest in free speech by radio [and TV] and their collective right to have the medium function consistently with the ends and purposes of the First Amendment. It is the right of the viewers and listeners, not the right of the broadcasters, which is paramount. It is the purpose of the First Amendment to preserve an uninhibited marketplace of ideas in which truth will ultimately prevail, rather than to countenance monopolization of that market, whether it be by the Government itself or a private licensee. It is the right of the public to receive suitable access to social, political, esthetic, moral and other ideas and experiences which is crucial here. That right may not constitutionally be abridged either by Congress or by the FCC.[70]

Though the Supreme Court made this pronouncement nearly 50 years ago, as long as the federal government continues to license spectrum, this rationale arguably remains salient today notwithstanding diminished scarcity.[71] In keeping with the concept of affording the public open access to a breadth of viewpoints, Congress and the FCC imposed on broadcasters an obligation known as the "equal time rule."[72] Dedicated to addressing election-time programming, in relevant part, the equal time rule sets forth that, "[i]f any licensee shall permit any person who is a legally qualified candidate for any public office to use a broadcasting station, he shall afford equal opportunities to all other such candidates for that office in use of such broadcasting station."[73] Hence, to the extent in which political candidates are able to take advantage of the ubiquitous medium of broadcast TV, the public is benefited by its exposure to the array of candidates' viewpoints, allowing it to become more engaged. Notably, broadcasters were also given flexibility in their coverage of news reporting involving political candidates, as the equal time rule was made subject to several exemptions.[74] Specifically, these exemptions were "aimed to prevent any possible chilling effects on the news coverage of political events that might occur from a strict interpretation of the equal time rule, thus making it possible to cover the political news to the fullest degree while still preserving licensees' traditional independent journalistic judgment."[75] Taken together, the equal time rule and its accompanying exemptions serve both to illuminate and bolster the political value of broadcast television.

> [Broadcast TV] plays an integral role in informing citizens about political happenings, but further, in framing how these issues should be viewed by the public. People not only watch political news on TV, but it is also their conduit for experiencing actual political events such as inaugurations, political debates, or State of the Union addresses.[76]

Thus, the presentation of broadcast news not only offers a broad picture of political viewpoints, but also makes the political issues themselves more accessible. Without regulation, the virtues afforded by political broadcasting may neither be enjoyed today, nor are they likely to survive tomorrow.

Surprisingly, in this age of ever-increasing viewing choices afforded by new modes of mass communication, far from obviating broadcast news, nonbroadcast political news actually reinforces the necessity of broadcast for a well-informed electorate.[77] "Despite the massive proliferation of political news outlets, television remains people's number one source of national and political news. TV clearly still holds an important place in the political communications landscape."[78]

With the rise of cable news networks and more expansive news coverage on the Internet, one might think that the marketplace of ideas is as vibrant as ever. While that might be true when considering the extent to which a myriad of viewpoints are more easily accessible, in actuality the deliberate selection of the same ideas to the exclusion (and ignorance of other ideas) runs counter to the very conception of the marketplace of ideas.[79] "As the number of available outlets for political news grows, so does the tendency of citizens to self-select which news to consume and which to ignore. This news filtering has resulted in media fragmentation."[80] Today, contrasted with broadcast TV, cable and Internet create a political news "echo chamber" particularly because unlike broadcast, there is no obligation to give equal time to candidates.[81] Indeed, its character runs counter to the desired impact of the equal time rule:

> [In] this media environment[,] people not only gravitate towards agreeing news, but almost entirely ignore news that contradicts their beliefs. Like an echo, beliefs are amplified or reinforced by transmission inside an "enclosed" space; the beliefs are never challenged and thus have

a tendency to move towards extreme positions over more moderate stances.[82]

The FCC's continuing obligations on broadcasters serve to moderate the political discourse, exposing viewers from all walks of life to a diversity of viewpoints in a media environment where a mutual understanding is increasingly lacking.[83]

Notably, even amongst an explosion in news coverage and modes of media consumption, there has been a general increase in both local and national broadcast news viewership.[84] However, broadcasters are not reaping the economic benefits from it.[85] Of course, this problem is exacerbated by the fact that Aereo and similar freeriders threaten the broadcasters' revenue stream. As such, broadcasters may neither be able to remain competitive in a media environment increasingly dominated by cable television and the Internet, nor will they be able to continue to afford viewers thoughtful political coverage essential to an informed electorate.

Children's Educational Programming

Contrary to the "brain-rotting" effect that our mothers warned us about, for many young children, broadcast TV has and continues to provide quality, affordable educational programming which can be crucial to their social and intellectual development. As the FCC has noted, "[s]tudies confirm…that children can benefit substantially from viewing educational television…. That television has the power to teach is important because nearly all American children have access to television and spend considerable time watching it."[86] Thus, educational (and even entertainment) programming can rightly be viewed as being consistent with the public interest.[87]

Nevertheless, it has not always been the case that the FCC has imposed meaningful regulations on broadcasters[88] designed to influence the amount of educational content which broadcasters include in their programming. Indeed, despite a series of FCC Reports and Orders[89] in the early 1980s and 1990s pertaining to children's television programming,[90] little emphasis was placed on the importance of educational programming made available on broadcast TV. Instead, the FCC believed that nonbroadcast networks, such as Nickelodeon and the Disney Channel, were sufficient sources of educational programming to accommodate, obviating the need to impose requirements on broadcasters.[91] Arguably, in making these decisions, the FCC was protecting the economic interests of broadcasters by preventing a financially burdensome result. Indeed, requiring broadcasters to make children's programming available to the public would depress available advertising revenue, yielding only marginal profits for broadcasters:

> Over-the-air commercial broadcast television stations earn their revenues from the sale of advertising time, [and] [r]evenues received from the sale of advertising depend on the size and the socio-demographic characteristic of the audience reached by the broadcaster's programming[,] [b]roadcasters thus have a reduced economic incentive to promote children's programming because children's television audiences are smaller than general audiences.[92]

However, understanding both the economic realities[93] and the enduring importance of children's educational programming, the FCC reversed course in 1996, placing a greater emphasis on the value of broadcast TV for children.

Specifically, the FCC adopted a series of regulations meant to implement the Children's Television Act of 1990 (CTA),[94] where previous attempts to do so "had not been fully effective in prompting broadcasters to increase the amount of educational and informational broadcast television programming available to children."[95] In so doing, the FCC pointed out that factoring the availability of children's programming on nonbroadcast channels into decisions regarding broadcast programming standards provides a myopic view of the American consuming public. "The significance of over-the-air television for children is reinforced by the fact that fewer children have access to cable television than to over-the-air television…Hence, over-the-air broadcasting is an important source of video programs for children and for all members of low income families, including children."[96] Additionally, recognizing the advertising-based disincentives for broadcasters to invest in children's programming, the FCC created incentives to comply with the new children's educational programming standards, in accordance with the public interest.[97]

Most recently, broadcast TV's public import in offering children's educational programming was prominently highlighted in the wake of Governor Mitt Romney's comments during a 2012 Presidential debate with President Barack Obama. In particular, Romney pledged that, if elected to the White House, he would cut government funding of Public Broadcasting System (PBS), stating, "I'm gonna stop the subsidy to PBS… I like PBS, I love Big Bird[98]…but I'm going to stop borrowing money from China to pay for things we don't need."[99] The comment resulted in public outcry and sparked a frank examination of the role of educational broadcast programming in the context of an already contentious campaign. Consequently PBS responded forcefully:

> As a stated supporter of education, Governor Romney should be a champion of public broadcasting, yet he is willing to wipe out services that reach the vast

> majority of Americans, including underserved audiences, such as children who cannot attend preschool and citizens living in rural areas…. Big Bird [embodies] the public broadcasting mission—harnessing the power of media for the good of every citizen, regardless of where they live or their ability to pay. Our system serves as a universally accessible resource for education, history, science, arts and civil discourse.[100]

Notably, PBS' statement echoes the rationale for supporting children's broadcasting—whether public or commercial—found in the FCC's 1996 Regulations implementing the CTA.

In view of Aereo's emergence, the fact that considerations from the FCC's 1996 Regulations remain relevant today is significant. Indeed, while there has been an increase in the number of nonbroadcast outlets available for children to receive video programming (including online video distributors such as Aereo), the educational needs of many American children remain reliant on broadcast programming. Today, 54 million Americans, many of whom are lower income families and minorities, watch broadcast TV exclusively.[101] Hence, while there is no substitute for a formal education, free educational programming can help to narrow inequality gaps in society. Accordingly, just as had been the case in 1996, it must be recognized that "the new marketplace for video programming [should neither] obviate [nor usurp] the public interest responsibility of individual broadcast licensees to serve the child audience."[102]

Moreover, not only does Aereo present a threat to broadcasters, but it also undermines broadcasters' ability to provide children's educational programming to the public. Indeed, broadcasters' already limited advertising revenue generated during children's programming would be further dampened by the uncompensated online retransmission of broadcast signal.[103] As such, it could potentially upset the incentive-based balance that the FCC established through its processing guidelines.[104] Accordingly, any future regulations should be made with this balance in mind.

Part III—The Necessity for Legislative or Regulatory Response

Given the fact that Aereo has managed to operate without (thus far) running afoul of either copyright law or FCC regulations, there is little doubt that its entire business model and system architecture was carefully designed by lawyers:[105]

> The company is delicately threading the needle—successfully so far—of several important court decisions involving copyright law. Indeed, it is little stretch to say that the company's entire business is engineered around those decisions. To make a long story short, it does so by maintaining a tiny antenna (about the size of a dime) for each of its customers—completely unnecessary to accomplish the technical feat but a handy way to fall within the "fair use" doctrine established back when Betamax and Cablevision first posed their technology-based threats to broadcasters.[106]

Thus, Aereo has capitalized on an apparent loophole lying in a gray area between copyright and communications law.[107] "Aereo's 'technology platform' is…a sham… [I]ndeed, the system is a Rube Goldberg-like contrivance, over-engineered in an attempt to avoid the reach of the Copyright Act and to take advantage of a perceived loophole in the law."[108] Still, some argue that this is simply an instance of following the law. Indeed, Aereo's lawyer stated in oral argument before the Second Circuit, "the [broadcasters] say it is a bad thing to follow the law… I believe the 2nd Circuit got it right to strike the right balance between public and private performances that lawmakers wanted."[109] While this may be the case, this argument is flawed in that the courts, let alone Congress, could not have anticipated either this type of technological development or its underlying policy implications. "Most significantly, *Cablevision* involved a cable company that paid statutory licensing and retransmission consent fees for the content it retransmitted, while Aereo pays no such fees."[110] Moreover, it should be noted, however, that no mention is made of the potential impact on communications policy.

Without any response from Washington, broadcasters may soon have incentives to abandon their allocated radio spectrum and become exclusively cable channels—particularly if Aereo is found to be operating legally. "[Broadcast n]etworks are almost wholly dependent on advertising, which is a scary thing today. This is different from the cable networks. They get a fee from cable operators for each subscriber…. And so network execs wonder about tossing the old ways to go cable…CBS chief [sic] Leslie Moonves has publicly flirted with the idea, saying switching to cable is a 'very interesting proposition.'"[111] More recently, News Corporation President Chase Carey voiced a similar warning, stating that Fox may become a subscription-only channel.[112] Indeed, broadcasters could potentially approach the FCC, offering to give up their spectrum in auctions.[113] As shown in Part II, such a result could pose a significant harm to the television viewing public since the weight of the quid pro quo public interest rationale embodied in the Gore Report would be effectively undermined. However, Aereo and the courts may be forcing broadcasters' hands.

Thus, regardless of the outcome of *Aereo*, a legislative or regulatory response is warranted to deal with the looming threat to broadcasters and their revenue stream.

> [Online Video Distributors, or OVDs] cannot be left to retransmit television broadcast signals online at will, leaving broadcast stations both unable to control the distribution of their signals over the Internet and unable to recapture the value of retransmission and resale of their signal, as this would have obvious and potentially devastating consequences for broadcasters.[114]

This response should ensure that the existing regulatory framework is not undercut by parasitic, freeriding activities, such as those from Aereo or subsequent imitators. Meanwhile, policymakers must keep in mind that the cord-cutting phenomenon well under way is *also* in the public interest. Indeed, greater accessibility to programming—including broadcast programming—will not only give viewers more flexibility in viewing their favorite content, but is likely to make cable television packages more affordable.[115] If the broadcasters succeed in securing an injunction against Aereo, policymakers should aim to encourage cord-cutting innovations and provide certainty to companies like Aereo, which may be operating in legal gray areas. Accordingly, any future responses made by Congress or the FCC should keep this milieu of policy considerations in mind in striking a proper balance to incentivize innovation while protecting the public goods afforded by broadcast TV. The following section will analyze the existing proposals, focusing on the extent to which they efficiently accommodate these dual goals.

Part IV—Proposals to Preserve Broadcast Television

Within the current framework of federal copyright and communications laws, two minimal definitional changes can be made. These definitional changes will serve to adapt the existing legal framework to the media environment within which it operates today. Specifically, one proposal would categorize so-called "over-the-top" OVDs as multichannel video distributors MVPDs under the Communications Act. Another proposal would instead require Congressional action to modify the definition of "cable systems" under the Copyright Act's compulsory license, bringing OVDs within the scope of the compulsory license. While changing these definitions would only slightly alter the text or interpretation of legislation, they would likely have a broad, lasting impact on the television industry. Each proposal affords the potential to achieve the twin aims of incentivizing cord-cutting innovations and protecting broadcasters. This section will expound on both proposals in turn, exploring their benefits and drawbacks. Though each proposal has its own limitations, with minor revisions, the proposals can be put in place in conjunction with one another, helping to close the loophole that Aereo has exploited.

Proposal One: Redefine MVPDs to Include OVDs

On the heels of a program access complaint of an OVD, Sky Angel, against Discovery Channel, which terminated its affiliation agreement with Sky Angel, the FCC Media Bureau has recently solicited public comment regarding the proper way to define both "channel" and "MVPD" under the Communications Act.[116] At issue in the program access complaint was whether Sky Angel qualified as an MVPD, thus entitling it to carry Discovery Channel programming under current program access rules.[117] Two noteworthy interpretations on which the Media Bureau has sought public comment are the following:

> (i) interpreting "channel" as used in the definition of the term "MVPD" to include the provision of a transmission path, thus treating as MVPDs only those entities that make available for purchase multiple streams of "video programming" as well as the transmission path; or (ii) interpreting "channel" as used in the definition of the term "MVPD" to provide that any entity that makes multiple "video programming networks" available for purchase is considered an "MVPD" without regard to whether it makes available a transmission path for purchase.

While the former narrow interpretation would preclude OVDs from achieving MVPD status, the latter broad interpretation would open the doors to MVPD status. Indeed, the issue of whether to make MVPD status conditional in part on the provision of a transmission path separates "traditional" MVPDs, such as cable and satellite providers, from OVDs, such as Aereo, Hulu and Sky Angel.[118] As the FCC has stated, the resolution of this seemingly innocuous issue has the potential to exert sweeping effects on the television industry.[119]

Should the FCC be persuaded to adopt the latter interpretation, "more companies could stream TV shows to computers and smartphones, hastening an industrywide shift to the Internet."[120] Equally significant is the fact that this interpretation would make OVDs subject to retransmission consent rules, thus mandating good faith negotiations for broadcast programming and creating a new revenue stream for broadcasters.[121] Hence, both interests of incentivizing innovation while protecting broadcasters and the continued availability of broadcast programming are largely addressed.

The response to a potential expansion of the definition of MVPD has been widely mixed. Leading the charge in favor of a broad definition without regard to the provision of a transmission path are Internet companies and consumer public interest groups. In support of MVPD status for OVDs, many have argued that, "[g]iven the market concentration and rising costs to consumers, it is vitally important to the competitive landscape that MVPDs include not only those entities that provide the transmission path but also those that utilize new distribution platforms, such as the Internet, to deliver video programming."[122] Moreover, this increased competition is also likely to create incentives to innovate and enhance efficiency.[123]

Notably, broadcasters have—with their own interests in mind—also emerged in favor of a broad interpretation of what constitutes an MVPD, finding themselves on the same side as some of the very companies that they have been battling in court. For example, broadcasters have similarly embraced the potential for enhanced competition and the resulting benefits to the public,[124] stating that, "[OVDs] represent other outlets for broadcast programming, including local news and information [which can] provide new opportunities for reaching more viewers and potentially increase advertising and retransmission consent revenues. Those revenues…can be used to enhance news, entertainment and public service programming—furthering the objective of localism."[125] Moreover, highlighting the threat that uncompensated online retransmissions of broadcast programming poses to broadcasters and the public, broadcasters have argued:

> Leaving broadcasters unable to control Internet distribution of their signals and without the means to negotiate for fair compensation for use of their signals would contradict Congress' mandate that "anyone engaged in retransmission consent by whatever means" obtain a station's consent, and would seriously undermine stations' ability to fulfill their public service obligations.[126]

Thus, without an FCC move to broadly define MVPDs to include OVDs, Aereo and other "over-the-top" providers could continue eluding retransmission consent rules, which would mandate OVDs to negotiate with broadcasters for the right to retransmit their broadcasting programming.[127]

Strikingly, the proposed move to a broader definition of MVPDs to encompass OVDs parallels the FCC response to the emergence of cable systems and its subsequent decision to make cable subject to retransmission consent rules:

> [B]ecause the only reason the re-transmission licensing rules came into effect was due to the rogue history of cable systems and broadcast TV. Cable systems largely began in rural areas where cowboy entrepreneurs figured out they could deliver clear TV signals to places that had a tough or impossible time pulling down over-the-air broadcasts. So the cable systems put an antenna somewhere central, then piped the signals to their customers for a small fee.[128]

Hence, given the parallel business plans and push to exploit technologically outmoded policies, it is rather fitting that Aereo and other OVDs might be subject to the same rules which sought to recalibrate the competitive balance for cable providers. Just as the retransmission consent rules emerged in order to protect broadcasters' vitality[129] in the face of new technologies which were essentially subsidized by broadcasters,[130] so too could they be extended to address the threats raised by OVDs such as Aereo. "[E]xempting Internet program distributors from the rules governing MVPDs—most importantly, the requirement of obtaining a television broadcaster's consent before retransmitting its signal—would not only threaten to upend a carefully-crafted regulatory scheme, but could materially affect a revenue stream important to television broadcasting."[131] Such a loss in revenue would almost certainly affect the quality of public interest programming that broadcasters provide.

On the other hand, cable and satellite companies have come out in favor of a narrow construction of what constitutes an MVPD, demanding the recognition of a transmission path requirement. Indeed, seeking to avoid the entry of new competitors, the traditional MVPDs are resisting such a definitional broadening that would adapt existing policy to emerging technology. "De-coupling MVPD status from facilities ownership or control would effectively enable anyone to leverage the offering of [several] amateur video clips into a right to demand access to high quality programming networks, a change of… far-reaching consequences for the video distribution and programming industries…"[132] Hence, cable titans such as Comcast, Cablevision, and Time Warner Cable argue for an outmoded interpretation that fails to adequately accommodate the policy issues raised by new technologies,[133] but prevents entrants of cord-cutting competitors that could upset the status quo.[134]

Despite the potential promises of giving OVDs MVPD status, several pitfalls exist. For one thing, the current retransmission consent rules have recently been subject to a great deal of criticism. Specifically, there have been concerns that broadcasters have abused the retransmission consent rules, increasingly using questionable negotiation tactics and demanding substantial sums of money[135] for the rights to retransmit broadcast programming.[136] "[D]isputes over retransmission consent have become more contentious and more public, and [the FCC has] recently seen a rise in negotiation impasses that have affected millions of consumers."[137] In particular, a series of programming "blackouts"[138] over the years has prompted the FCC to revisit the rules surrounding retransmission consent and negotiations, focusing on a clarification of the good faith negotiation standard to give greater certainty to negotiating parties and consumers alike.[139] Additionally, retransmission consent rules may not even accomplish the localism-driven aims that they were originally designed to accomplish:

> Research on local broadcasters' provision of local news and public affairs programming provides little compelling evidence that retransmission consent revenues are being utilized by broadcasters to enhance their provision of local news and public affairs programming. Rather, it appears that these revenues are being used in large part to fund the programming activities of national broadcast networks.[140]

Absent regulatory action to address the deficiencies in the current retransmission consent regime, questions remain about whether broadcasters might similarly abuse these rules in the face of negotiations with OVDs. Thus, even if MVPD rules are extended to encompass OVDs, the regulations themselves will need special attention to ensure that they are performing properly.

Meanwhile, others have even considered doing away with retransmission consent altogether, arguing, "[t]he Retransmission Consent right is fundamentally flawed because it is based on a legal fiction—the notion that consumers and MVPDs are interested in a broadcast station's signal rather than in the programs on that signal."[141] Hence, for some, the better solution may be to allow companies to negotiate over the right to retransmit copyrighted programming itself—not the broadcast signal.[142] Nevertheless, such a strategy may not provide the same type of protections available to broadcasters that the retransmission consent rules afford.

Proposal Two: Make Internet Retransmissions Subject to the Compulsory Copyright License

For others, the solution to closing the loophole which Aereo has managed to exploit lies neither within the Communications Act, nor in the rulemaking power of the FCC, but rather in the Copyright Act. Specifically, Congress can broaden the scope of the Section 111 Compulsory License[143] to apply to over-the-top retransmissions as well as to MVPD retransmissions, such that "broadcasters, if not cable networks, [w]ould be required to license their content under fair, reasonable and non-discriminatory (FRAND) terms to all distributors."[144] As previously stated,[145] the current compulsory license has consistently been interpreted not to apply to video content transmitted over the Internet—in spite of the fact that the policy reasons supporting the original adoption of the compulsory license for cable and satellite are the same as those supporting compulsory licensing for OVDs:

> Independent programming creators had an interest in the continued health of their primary distributors, the broadcasters. And along with the broadcasters they believed it was inequitable that a new, profitable industry should emerge that used others' content for free. Both program suppliers and broadcasters therefore wanted cable to make some kind of payment for the use of content, broadcast signals, or both…. The compulsory license was created because of the prevailing view that the transaction costs of each cable system contracting with each content provider would be too high, limiting both the growth of cable and the audience for content.[146]

Without a compulsory license for OVDs, high transaction costs pose a barrier to new competitors. Consequently, the existing, outdated scheme has yielded great uncertainty, stymieing innovation, and potentially depriving broadcasters of both a justly deserved royalty revenue stream and the incentives to produce quality programming.

One potential "quick fix" would be to legislatively overrule the cases and legislative history which have held that over-the-top programming retransmissions do not qualify as "cable systems" under the compulsory license. However, in order for this change to have full effect, the FCC would either have to authorize this retransmission, or the language in the statute requiring FCC authorization would have to be removed completely.[147] Furthermore, even though this scheme would allow many OVDs to emerge, it is not clear that the royalty revenue alone would be sufficient to support broadcasters' continued vitality. Indeed, a recently enjoined OVD called "ivi" would have had to pay a mere $100 annual royalty to the Copyright Office for the right to retransmit copyrighted broadcast programming content under the Section 111 Compulsory License.[148] Recognizing the inadequacy of a compulsory license for Internet retransmissions, the Copyright Office has stated:

> Such a measure…would effectively wrest control away from program producers who make significant investments in content and who power the creative engine in the U.S. economy. In addition, a government-mandated Internet license would likely undercut private negotiations leaving content owners with rela-

tively little bargaining power in the distribution of broadcast programming.[149]

Thus, while an alteration in the existing compulsory licensing regime would accomplish the goal of encouraging cord-cutting innovations, without a corresponding change from the FCC with regard to communications policy, a redefined licensing regime is, on its own, unlikely to support broadcasters and their abilities to produce quality programming for the public.[150]

A Retransmission-Compulsory License Hybrid Approach to OVDs

On their own, neither of the two above proposals is likely to optimally close the loophole that has allowed Aereo and over-the-top services to emerge and inequitably compete with broadcasters. However, drawing on elements from both proposals, the federal government can harmonize its copyright and communications law policy[151] with both the contemporary media environment and the public interest. Thus, the FCC should give OVDs MVPD status, while Congress should make them subject to a compulsory licensing scheme. While there are any number of ways to accomplish these ends, one suggestion to ensure "fair, reasonable, and non-discriminatory terms" is to set up a tiered compulsory licensing regime based upon the total number of subscribers to a particular service, while creating a threshold of subscribers that would trigger retransmission consent negotiations.[152] However federal legislators and regulators decide to structure this scheme, it should be tailored to ensure that broadcasters are able to negotiate for and receive adequate revenue while enabling new, innovative entrants into the television industry. Of course, due consideration should also be given for the potential for abuse in negotiations between broadcasters and MVPDs and OVDs alike.

Conclusion

As of the writing of this article, Aereo remains fully operational and is likely to garner more attention as it sets its sights on increasing both its advertising and its geographic scope. In May,[153] it not only moved for summary judgment on the merits of the broadcasters' copyright claims, but also sued CBS seeking a declaratory judgment as to the legality of its services.[154] While it remains to be seen what the final outcome of the *Aereo* case will be, the true import of the controversy lies in the exposure of an apparent loophole allowing unjust freeriding in the intertwined fields of copyright and communications law. Thus, policymakers must take action to adapt the legal framework surrounding the television industry to today's highly technological environment, encouraging the vitality of broadcasters while fostering innovation. Should the loophole remain unaddressed, perceived benefits enjoyed by a few will come at the expense of the American public as a whole.

Endnotes

1. I am careful not to use the term, "TV Everywhere" as an overarching term for this phenomenon, since that term refers to "an authentication system whereby certain premium content (TV shows, movies, etc.) are [sic] available online" to existing cable (or satellite) subscribers by companies such as Time Warner and Comcast. Chris Albrecht, *Everything You Need to Know About TV Everywhere*, GIGAOM (June 23, 2009), http://gigaom.com/2009/06/23/what-you-need-to-know-about-tv-everywhere/.
2. *See* Mitch Stoltz, *2012 in Review: Suits Against Personal TV Technology And the Right to Innovate Without Permission*, ELECTRONIC FRONTIER FOUNDATION (Dec. 30, 2012), https://www.eff.org/deeplinks/2012/12/suits-against-personal-tv-technology-and-right-innovate-without-permission (Cord-cutting "enhanc[es] viewers' private TV-watching by giving them more control of the experience…"); *see also infra* note 4.
3. Amer. Broad. Comps., Inc. v. Aereo, 874 F.Supp.2d 373 (S.D.N.Y. 2012).
4. *See* Jeff John Roberts, *Aereo's Big Bet to Break the TV Industry: CEO Chet Kanojia Explains*, GIGAOM (Feb. 7, 2013), http://gigaom.com/2013/02/07/aereos-big-bet-to-break-the-tv-industry-ceo-chet-kanojia-explains/.
5. *See* Aereo, 874 F.Supp.2d at 381-96; *but see* Fox Television Stations, Inc. v. BarryDriller Content Systems, PLC, 2012 WL 6784498, 6 (C.D. Cal 2012).
6. *Aereo Announces $20.5M Series A Financing Led by IAC; New Technology Platform Allows Consumers Access to Live TV Over the Internet*, MARKETWIRE (Feb. 14, 2012), http://www.marketwire.com/press-release/aereo-announces-205m-series-a-financing-led-iac-new-technology-platform-allows-consumers-nasdaq-iaci-1619629.htm.
7. Roger Parloff, *Aereo is Leaving the Courts Dazed and Confused*, CNN MONEY (May 21, 2012), http://tech.fortune.cnn.com/2012/05/21/aereo/.
8. *Id.*
9. *Amid Lawsuits, Aereo Brings Broadcast TV to the Internet*, NPR (Feb. 21, 2013), http://www.npr.org/blogs/alltechconsidered/2013/02/21/172532486/amid-lawsuits-aereo-brings-broadcast-tv-to-the-Internet ("[Subscribers] not only get all the over-the-air TV signals in [their] home market, but [they] also get 20 hours of stored DVR [(Digital Video Recorder)] programming.").
10. Daniel L. Brenner & Stephen H. Kay, *ABC v. Aereo, Inc.: When Is Internet Distribution a "Public Performance" Under Copyright Law?*, 24 NO. 11 INTELL. PROP & TECH. L.J. 12, 13 (2012).
11. In relevant part, the Copyright Act defines a "cable system" as:

    > a facility, located in any State, territory, trust territory, or possession of the United States, that in whole or in part receives signals transmitted or programs broadcast by one or more television broadcast stations licensed by the Federal Communications Commission, and makes secondary transmissions of such signals or programs by wires, cables, microwave, or other communications channels to subscribing members of the public who pay for such service.

    17 U.S.C. § 111. While it seems at first glance that Aereo qualifies as a cable system, the Second Circuit's interpretation indicates otherwise: "Congress did not…intend for § 111's compulsory license to extend to Internet transmissions." WPIX, Inc. v. ivi, Inc., 691 F.3d 275, 282 (2d Cir. 2012).
12. Aereo, like other online video sites, is not currently a "multichannel video programming distributor" (MVPD), and thus, is not subject to retransmission consent rules. *See* Brian Stelter, *If Video Sites Could Act Like Cable Companies*, N.Y. TIMES

(May 22, 2012), http://www.nytimes.com/2012/05/23/business/media/fcc-weighs-treating-video-sites-like-cable-companies.html; *Retransmission Consent*, FCC Encyclopedia (Mar. 8, 2011), http://www.fcc. gov/encyclopedia/retransmission-consent.

13. 874 F. Supp. 2d at 373.

14. *Id.* at 376.

15. *See* 17 U.S.C. § 101:

> [t]o perform or display a work "publicly" means…to transmit or otherwise communicate a performance or display of the work…to the public, by means of any device or process, whether the members of the public capable of receiving the performance or display receive it in the same place or in separate places and at the same time or at different times.

16. Fox Television Stations, Inc. v. BarryDriller Content Systems, PLC, 2012 WL 6784498, footnote 11 (C.D. Cal 2012) (*quoting* Richard A. Posner, *Reasoning by Analogy*, 91 Cornell L. Rev. 761, 771 (2006)).

17. Cartoon Network, LP, LLLP v. CSC Holdings, Inc., 536 F.3d 121, 123 (2d Cir. 2008).

18. *Id.* at 139.

19. *Aereo*, 874 F. Supp. 2d at 382.

20. *Id.* at 385-86.

21. *See* WNET, Thirteen v. Aereo, Inc., 712 F.3d 676, 676 (2d Cir. 2013).

22. For their part, the broadcasters have already stated that they will vigorously appeal this decision to the Second Circuit. *See* Joe Flint, *Aereo Wins First Legal Round Against Broadcasters*, L.A. Times (July 11, 2012), http://articles.latimes.com/2012/jul/11/entertainment/la-et-ct-aereoverdict-20120711. Regardless of the outcome of the appeal, it would not be farfetched to see this case in the U.S. Supreme Court, particularly in light of the substantial economic interests for all parties and because of a potential split in the Ninth Circuit. *See* Fox Television Stations, Inc. v. BarryDriller Content Systems, PLC, 2012 WL 6784498 (C.D. Cal 2012); *accord* Kevin Goldberg, *Judge Puts the Cuffs on AereoKiller*, CommLawBlog, www.commlawblog.com/tags/compulsory-licenses/ ("If both the Second Circuit and the Ninth Circuit affirm their respective lower courts' views as to what constitutes a public performance, the result will be a classic "circuit split" that could be resolved only by the Supreme Court (unless Congress were to intercede with legislation addressing the problem)").

23. *See Aereo*, 874 F. Supp. 2d at 384.

24. *Id.* at 397.

25. Nielsen is a private corporation whose metrics have become the industry standard for determining audience viewership. *See About Nielsen*, Nielsen, http://www.nielsen.com/us/en/about-us.html.

26. *Aereo*, 874 F. Supp. 2d at 398.

27. "[A]llowing viewers to access programming from unsanctioned sources would inevitably damage the plaintiffs' ability to profit from sanctioned sources. [S]uch losses [are] notoriously difficult to prove and nearly impossible to quantify." *Id.* (internal citations and quotations omitted). This is similarly problematic for broadcasters when attempting to negotiate retransmission consent agreements. "Th[e] lack of quantifiability [of harm] is compounded by the difficulty of determining whether consumers have 'cut the cord' with their cable company due to Aereo's service or for other reasons." *Aereo*, 874 F. Supp. 2d at 398.

28. *See* 47 U.S.C. § 325(b)(1)(A).

29. *See* 47 U.S.C. § 325(b)(3)(C)(ii)-(iii); 47 C.F.R. § 76.65; *see also supra* note 12.

30. 47 U.S.C. § 522(13) defines a multichannel video programming distributor as "a person such as, but not limited to, a cable operator, a multichannel multipoint distribution service, a direct broadcast satellite service, or a television receive-only satellite program distributor, who makes available for purchase, by subscribers or customers, multiple channel of video programming."

31. *See* 47 U.S.C. §§ 325(b), 534, 535.

32. Philip M. Napoli, *Retransmission Consent and Broadcaster Commitment to Localism*, American Television Alliance (November 2011), http://www.americantelevisionalliance.org/wp-content/uploads/2011/11/Retransmission-Consent-and-Localism-Paper-by-Napoli-FINAL.pdf.

33. Daniel L. Brenner and Stephen H. Kay, *ABC v. Aereo, Inc.: When is Internet Distribution a "Public Performance" Under Copyright Law?*, 24 No. 11 Intell. Prop. & Tech. L.J. 12, 15 (2012).

34. "Aereo has conducted surveys suggesting its services could prompt a substantial proportion of its subscribers to cancel their cable subscriptions." *Aereo*, 874 F. Supp. 2d at 399.

35. *Id.*

36. *See id.* at 398-99; *accord BarryDriller*, 2012 WL 6784498 at 6 ("existing and prospective licensees will demand concessions to make up the loss of viewership to non-paying alternatives, and may push additional players away from license-fee paying technologies and toward free technologies."); *see also* Brenner and Kay, *supra* note 33 at 15 (noting, "If distributors can bypass [the retransmission consent] system with a one-time technical fix, *Aereo* could change the economics of television profoundly.").

37. *Aereo*, 874 F. Supp. 2d at 399.

38. *BarryDriller*, 2012 WL 6784498 at 6.

39. American Broadcasting Companies, Inc. v. Aereo, Inc., 2012 WL 4338923, 46 (2d Cir. 2012) (Brief for Appellants).

40. *Id.* at 46-47 ("In particular, the inability to obtain compensation for creating very expensive programming would make it difficult for the networks to continue to offer such broadcast content for free.").

41. WPIX, Inc. v. ivi, Inc., 691 F.3d 275, 288 (2d Cir. 2012).

42. *See* National Broadcasting Co. v. United States, 319 U.S. 190 (1943); *see also* Red Lion Broadcasting Co. v. FCC, 395 U.S. 367 (1969).

43. *Charting the Digital Broadcasting Future*, Final Report of the Advisory Committee on Public Interest Obligations of Digital Television Broadcasters, December 18, 1998 (hereinafter "The Gore Report").

44. *See id*. at 43 ("If the digital portion of the public airwaves does provide enhanced economic benefits to broadcasters…it is reasonable to recommend ways for the public to receive some benefit in return.").

45. *See id.* at 17 ("[T]he public interest standard in broadcasting has attempted to invigorate the political life and democratic culture of this Nation. Commercial broadcasting has often performed this task superbly. But when it has fallen short, Congress and the FCC have developed new policy tools aimed at achieving those goals.… As competition in the telecommunications marketplace becomes more acute and as the competitive dynamics of TV broadcasting change, the capacities of the free marketplace to serve public ends are being tested as never before.").

46. *Id.*:

> Federal oversight of all broadcasting has had two general goals: to foster commercial development of the industry and to ensure that broadcasting serves the educational and informational needs of the American people. In many respects, the two goals have been quite complementary, as seen in the development of network news operations and in the variety of cultural, educational, and public affairs programming aired over the years.

47. *See id.*

48. *WPIX*, 691 F.3d at 287.

49. *See id.* at 288 ("[Broadcasters'] desire to create original television programming surely would be dampened if their creative works could be copied and streamed over the Internet in derogation of their exclusive property rights.").

50. Steven Waldman, *The Information Needs of Communities*, Federal Communications Commission (2011), http://transition.fcc.gov/osp/inc-report/The_Information_Needs_of_Communities.pdf.

51. *See, e.g.,* Broadcast Localism, Notice of Inquiry, 19 FCC Rcd. 12,425 ¶ 1 (2004) ("localism has been a cornerstone of broadcast regulation for decades.").

52. 47 U.S.C. § 307(b).

53. *See* Stuart Minor Benjamin, Howard A. Shelanski, James B. Spera, and Philip J. Weiser, Telecommunications Law and Policy (Third Edition), pp 75-76 (Carolina Academic Press, 2012).

54. *See Ascertainment of Community Problems by Broadcast Applicants*, 57 F.C.C.2d 418, 441 (1975) ("the principal ingredient of a licensee's obligation to operate in the public interest is the diligent, positive and continuing effort by the licensee to discover and fulfill the problems, needs and interests of the public within the station's service area"); *see also* Tom A. Collins, *The Local Service Concept in Broadcasting: An Evaluation and Recommendation for Change,* 65 Iowa L. Rev. 553, 570 (1980) ("The idea that local stations should be a vital, integral part of their respective communities is easily accepted. To fulfill that role, local stations must provide programming appropriate to the communities they serve…and offer amenities and assistance to the community that otherwise are not available.").

55. Advisory Committee on Public Interest Obligations of Digital Television Broadcasters, *The Public Interest Standard in Television Broadcasting*, Benton Foundation, (1999), http://benton.org/initiatives/obligations/charting_the_digital_broadcasting_future/sec2.

56. *Id.*; *see also* Turner Broadcasting System, Inc. v. F.C.C. (*Turner I)*, 512 U.S. 622, 646 (1994) ("there is a substantial governmental interest in promoting the continued availability of such free television programming, especially for viewers who are unable to afford other means of receiving programming.") (internal quotation marks and citations omitted); Turner Broadcasting System, Inc. v. F.C.C. (*Turner II*), 520 U.S. 180, 194 (1997) ("Congress has an independent interest in preserving a multiplicity of broadcasters to ensure that all households have access to information and entertainment of an equal footing with those who subscribe to cable.") (internal quotation marks and citations omitted).

57. Napoli, *supra* note 32.

58. *Id.*

59. Pub. L. No. 106-1 13, codified at 47 U.S.C. § 338.

60. *See Turner I*, 512 U.S. at 647:

> By preventing cable operators from refusing carriage to broadcast television stations, the must-carry rules ensure that broadcast television stations will retain a large enough potential audience to earn necessary advertising revenue—or, in the case of noncommercial broadcasters, sufficient viewer contributions—to maintain their continued operation. In so doing, the provisions are designed to guarantee the survival of a medium that has become a vital part of the Nation's communication system, and to ensure that every individual with a television set can obtain access to free television programming.

However, as will be discussed in Part III, retransmission consent has been the subject of recent debate, with many arguing that retransmission consent negotiations are subject to broadcaster abuse. *See id.*

61. *Turner I*, 512 U.S. at 634 (internal quotation marks and citations omitted).

62. *Testimony of NAB EVP Jane Mago at Hearing on Satellite Television Extension and Localism Act*, Nat'l Assoc. of Broadcasters, (Feb. 13, 2013), http://www.nab.org/documents/newsRoom/pressRelease.asp?id=2870; *see also Protect TV Viewers and Allow Broadcasters to Continue Negotiating in the Free Market*, 2013, Nat'l Assoc. of Broadcasters, https://www.nab.org/advocacy/issue.asp?id=1891&issueid=1008.

63. *See Aereo*, 874 F.Supp.2d at 399.

64. *Turner II*, 520 U.S. at 194.

65. Advisory Committee on Public Interest Obligations of Digital Television Broadcasters, *The Public Interest Standard in Television Broadcasting*, Benton Foundation (1999), http://benton.org/initiatives/obligations/charting_the_digital_broadcasting_future/sec2.

66. *Id.*

67. *See id.*

68. Waldman, *supra* note 50.

69. While it could be argued that journalistic standards are normative restraints, they do not approach the regulatory framework within which broadcast TV operates.

70. *Red Lion Broadcasting*, 395 U.S. at 390 (internal citations omitted).

71. *See* The Gore Report, *supra* note 43.

72. *See* 47 U.S.C. § 315(a). There are equivalent obligations on political cablecasting as well. *See* 47 C.F.R. § 76.205.

73. *Id.*

74. *See id.* ("Appearance by a legally qualified candidate on any—(1) bona fide newscast, (2) bona fide news interview, (3) bona fide news documentary…or (4) on-the-spot coverage of bona fide news events…shall not be deemed to be use of a broadcasting station within the meaning of this subsection.").

75. Jonathan D. Janow, *Make Time of Equal Time: Can the Equal Time Rule Survive a Jon Stewart Media Landscape?*, 76 Geo. Wash. L. Rev. 1073, 1076-77 (2008) (internal quotation marks and citations omitted).

76. Rebecca Sara Chalif, *Selective Politics: The Fragmentation and Polarization of News on Cable TV*, Georgetown University Thesis, 33 (April 21, 2011), *available at* http://repository.library.georgetown.edu/bitstream/handle/10822/552906/chalifRebecca.pdf?sequence=1.

77. *See* Janow, *supra* note 75 at 1093. ("Despite dramatic changes in the media landscape since the [equal time] rule's inception, the goals that underlie these early political broadcasting regulations remain important today.").

78. *Id.*

79. Naomi Cahn and June Carbone, Red Families v. Blue Families: Legal Polarization and the Creation of Culture, 68 (2010) ("The very ability to choose—neighborhoods, cable TV stations, Internet sites, churches—increases the risk that we will hear only those with whom we agree.").

80. Chalif, *supra* note 76 at 1.

81. *See* Janow, *supra* note 75 at 1093 (noting, "Though the possibility of extending political broadcasting responsibilities, including the equal time rule, to cable networks was at one time considered by the FCC, the FCC has also expression uncertainty about whether it has the jurisdiction to do so.").

82. Chalif, *supra* note 76 at 25.

83. *See id.* at 101.

84. *See* Deborah D. McAdams, *Broadcast News Beaks Audience Decline Trend, But Doesn't Profit From It, Pew Says*, TVTechnology, March 19, 2012, http://www.tvtechnology.com/business/0107/broadcast-news-breaks-audience-decline-trend-but-doesnt-profit-from-it-pew-says/212403.

85. *See id.*

86. Report and Order, *Policies and Rules Concerning Children's Television Programming*, 11 FCC Rcd. 10660, 10664-65 (1996).

87. *See* 47 U.S.C. § 336(d).

88. *See* Report and Order, *Children's Television Programming and Advertising Practices*, 96 F.C.C. 2d. 634, 648 (1983) (finding, "there is no national failure of access to children's programming that requires an across-the-board, national quota for licensees to meet"); *see also* Report and Order, *Policies and Rules Concerning Children's Television Programming*, 6 FCC Rcd. 2111 (1991) (adopting only permissive, non-quantitative guidelines for broadcasters to follow in assessing programming for children).

89. *See supra* note 88.

90. Even federal legislation on the topic was unceremoniously passed around this time without any concrete or remotely rigorous standards for broadcasters' children's television programming. *See* 47 U.S.C. § 303a; *see also supra* note 88.

91. *See supra* note 88.

92. 11 FCC Rcd. at 10674.

93. "[O]ur rules fail to adequately counterbalance the marketplace disincentives as Congress intended when it enacted the CTA. Indeed, some broadcasters are carrying very little regularly scheduled standard length programming specifically designed to educate and inform children." *Id.* at 10661.

94. 47 U.S.C. § 303a.

95. *Id.* (internal quotation marks and citations omitted).

96. 11 FCC Rcd. at 10665-66.

97. *See id.* at 10718 (creating a processing guideline in which the broadcasters' applications for renewal would be approved with compliance with the guideline, while broadcasters failing to meet the guideline would be referred to the Commission). Though the FCC only created guidelines, broadcasters have historically treated these guidelines as a mandatory rule. *See* Susan Crawford Communications Law Lecture (Feb. 25, 2013) (notes on file with author).

98. Big Bird is (of course) the famous, yellow-feathered character on the PBS children's series "Sesame Street."

99. Jack Mirkinson, *PBS CEO Paul Kerger: Mitt Romney's Debate Attack Was 'Stunning,'* The Huffington Post (Oct. 4, 2012), http://www.huffingtonpost.com/2012/10/04/pbs-mitt-romney-debate_n_1939546.html.

100. *PBS Statement Regarding October 3 Presidential Debate*, PBS (Oct. 4, 2012), http://www.pbs.org/about/news/archive/2012/statement-presidential-debate/.

101. *See* Michael Grotticelli, *More American Homes Now Watch TV Over the Air Exclusively*, Broadcast Engineering (June 19, 2012), http://broadcastengineering.com/blog/more-american-homes-now-watch-tv-over-air-exclusively.

102. 11 FCC Rcd. at 10681.

103. *See supra* note 27.

104. *See supra* note 97 and accompanying text.

105. Larry Downs, *Ready to Innovate? Get a Lawyer*, Harvard Bus. Rev. (Mar. 6, 2013), http://blogs.hbr.org/cs/2013/03/ready_to_innovate_get_a_lawyer.html.

106. *Id.*

107. *See supra* note 12 and accompanying text.

108. WNET v. Aereo, Inc., 12-2786-cv at 2 (2d Cir. 2013) (Chin, J., *dissenting*).

109. Mike Masnick, *Judges Realize Aereo's Setup Is Insane Technologically But May Get The Wrong Message Out Of It*, TechDirt, (Dec. 3, 2012), http://www.techdirt.com/articles/20121130/11383021186/judges-realize-aereos-setup-is-insane-technologically-may-get-wrong-message-out-it.shtml.

110. WNET, 12-2786-cv at 3 (Chin, J., *dissenting*).

111. Jon Fine, *Why Broadcast Networks Can't Just Turn Cable*, Businessweek, (May 21, 2009), http://www.businessweek.com/magazine/content/09_22/b4133076651151.htm; *but see* David Lieberman, *Aereo Chief Sees Movies And News Boosting National Expansion Plans*, Deadline (Jan. 16, 2013), http://www.deadline.com/2013/01/aereo-chet-kanojia-interview-expansion-plans-movies-news/ (Responding to a question about the possibility of broadcasters switching to cable channels, Aereo CEO Chet Kanojia stated, "The public largess that's been showered on [broadcasters] from free use of the airwaves comes with responsibility for programming in the public interest. And the idea that they would abandon that completely? I don't see any lawmaker liking that.").

112. Eriq Gardner & Carolyn Giardina, *News Corp.'s Chase Carey: Aereo Could Force Fox Off Broadcast Air*, The Hollywood Reporter (Apr. 8, 2013), http://www.hollywoodreporter.com/news/fox-broadcast-chase-carey-warns-434745.

113. *Id.*

114. Harry A Jessell, *FCC Needs to Give OVDs MPVD Status*, TVNewsCheck (May 18, 2012), http://www.tvnewscheck.com/article/59567/fcc-needs-to-give-ovds-mpvd-status.

115. Roberto Baldwin, *Why I'm Cutting the Cord, and How Cable Can Get Me Back*, Wired (Sep. 4, 2012), http://www.wired.com/gadgetlab/2012/09/cord-cutters-why/ (discussing the costs and benefits of Pay-TV and the cord-cutting solutions to lower one's bill in the short term while putting pressure on cable and satellite to change their business model in the long term).

116. Federal Communications Commission, Media Bureau, Media Bureau Seeks Comment on Interpretation of the Terms "Multichannel Video Programming Distributor" and "Channel" as Raised in Pending Program Access Complaint Proceeding, DA 12-507 (2012).

117. *See id.*; *see also* Brad Stelter, *If Video Sites Could Act Like Cable Companies*, N.Y. Times (May 22, 2012), http://www.nytimes.com/2012/05/23/business/media/fcc-weighs-treating-video-sites-like-cable-companies.html?_r=0.

118. John Eggerton, *NCTA: MVPD Means Transmission Programming and Facilities*, Broadcasting & Cable (May 14, 2012), http://www.broadcastingcable.com/article/484551-NCTA_MVPD_Means_Transmission_Programming_and_Facilities.php ("Entities that offer or package video programming for viewing on the Internet do not generally include such a transmission path in their service offerings to customers; that path is purchased by customers separately from their Internet service providers. And, as a result, such entities are not MVPDs.").

119. *See supra* note 116 ("The interpretation of these terms has legal and policy implications that extend beyond the parties to this complaint.").

120. Stelter, *supra* note 117.

121. *See* Media Bureau Comment *supra* note 116:

> The regulatory benefits of MVPD status include the right to seek relief under the program access rules and the retransmission consent rules. Among the regulatory obligations of MVPDs are statutory and regulatory requirements relating to program carriage,…[and] the requirement to negotiate in good faith with broadcasters for retransmission consent.

122. Reply Comments of Sky Angel U.S., LLC, MB Docket No. 12-83 at 31 (June 13, 2012).

123. *Id.*

124. Comments of the National Association of Broadcasters, MB Docket No. 12-83 at 3 (May 14, 2012) ("Local television broadcasters specifically may also benefit from the emergence of new competitive MVPD services.").

125. *Id.*

126. Reply Comments of the National Association of Broadcasters, MB Docket No. 12-83 at 7 (June 13, 2012).

127. *See* Stelter, *supra* note 117.

128. David Kravets, *Shades of 1984 Emerge in Broadcast TV Copyright Flap*, Wired (Apr. 13, 2012), http://www.wired.com/threatlevel/2012/04/aereo-shades-of-1984/.

129. *See* NAB Comments *supra* note 124 at 4:

> In fact, a recent economic study concluded that, if retransmission consent rules were changed to inhibit or foreclose retransmission revenues, the median U.S. television station would "earn insufficient profits to cover its cost of capital." And if this situation persisted for an extended period, about "half of all stations" (i.e., those below the median) "would potentially face shutdown."

130. Reply Comments of CBS Corporation, MB Docket No. 12-83 at 8 (June 13, 2012).

131. *Id.* at 1-2.

132. Comments of Cablevision, MB Docket No. 12-83, at 4 (May 14, 2012).

133. *See* Comments of Time Warner Cable Inc., MB Docket No. 12-83 (May 14, 2012); *see also* Reply Comments of Comcast Corporation and NBCUniversal Media, LLC, MB Docket No. 12-83 (June 13, 2012).

134. "A change to the definition of multichannel distributor could make it easier for the companies to acquire programming, analysts say — which may explain why the incumbents have opposed any such change." Stelter, *supra* note 117.

135. In the Matter of Amendment of the Commission's Rules Related to Retransmission Consent, Federal Communications Commission, Notice of Proposed Rulemaking, 26 FCC Rcd. 2718, 2719 (2011):

> Historically, cable operators typically compensated broadcasters for consent to retransmit the broadcasters' signals through in-kind compensation, which might include, for example, carriage of additional channels of the broadcaster's programming on the cable system or advertising time. Today, however, broadcasters are increasingly seeking and receiving monetary compensation from MVPDs in exchange for consent to the retransmission of their signals.

136. *See id.*

137. *Id.*

138. *See* Bruce Edward Walker, *Proposed Retransmission Rules May Ease Broadcast Blackouts*, Heartland (May 31, 2011), http://news.heartland.org/newspaper-article/2011/05/31/proposed-retransmission-rules-may-ease-broadcast-blackouts.

139. *See supra* note 135 at 2719-20.

140. Philip M. Napoli, *Retransmission Consent and Broadcaster Commitment to Localism*, 20 Comm. Law Conspectus, 345, 362 (2012).

141. John Eggerton, *Padden: Get Rid of Compulsory License and Retrans*, Broadcasting & Cable (July 20, 2012), http://www.broadcastingcable.com/article/487501-Padden_Get_Rid_of_Compulsory_License_and_Retrans.php.

142. As will be seen in the next section, this would also require repealing the compulsory copyright license altogether.

143. "Under the statutory licenses, multichannel video programming distributors (MVPDs) who comply with various statutory requirements and FCC regulations can retransmit programming on their systems without obtaining permission from the copyright holder." John Bergmayer, *The Cable and Satellite Compulsory Copyright Licenses*, Silicon Flatirons, http://www.siliconflatirons.com/documents/publications/report/CompulsoryCopyrightLicenses.pdf.

144. Len Feldman, *The Internet Video Battle is the Wrong Fight in the Wrong Venue*, The Feldman File (Dec. 10, 2012), http://feldmanfile.blogspot.com/2012/12/the-Internet-video-battle-is-wrong.html.

145. *See supra* note 12 and accompanying text.

146. *Id.*

147. *See* 17 U.S.C. § 111(b)(2) (requiring that "the carriage of the signals comprising the secondary transmission [be] required under the rules, regulations, or authorizations of the Federal Communications Commission").

148. *See* WPIX, Inc., v. ivi, Inc., 2010 WL 3840502, Compl. ¶ 6 (S.D.N.Y. 2010).

149. WPIX, Inc., v. ivi, Inc., 691 F.3d 275, 283 (2012) (internal citations omitted).

150. *See* Bergmayer, *supra* note 143:

> [T]he license is intertwined with other areas of media law, such as must-carry, retransmission consent, buy-through, network non-duplication, syndicated exclusivity, and sports blackout rules. Any change to the license…would have to be accompanied by other policy changes. For example, a commercial broadcaster's right to negotiate for compensation in exchange for the carriage of its signal was developed with the compulsory license as background.

151. Perhaps these changes would appear in brand new Copyright Act and Communications Act amendments.

152. *See* Feldman, *supra* note 144.

153. Sindhu Sundar, *Aereo Fires Back At Networks' IP Claims In Streaming TV Row*, Law360, May 14, 2013, http://www.law360.com/articles/441661/aereo-fires-back-at-networks-ip-claims-in-streaming-tv-row.

154. *See supra* note 35 and accompanying text; Katy Bachman, *Aereo Makes Pre-emptive Legal Move Against CBS*, Adweek, May 6, 2013, http://www.adweek.com/news/technology/aereo-makes-pre-emptive-legal-move-against-cbs-149196 ("Aereo is asking [the Southern District of New York] for declaratory judgment to pre-emptively rule against CBS in Boston and in any of the other cities Aereo plans to roll out its service.").

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A Model for Success: Why New York Should Change the Classification of Child Models Under New York Labor Laws

By Craig Tepper

"It's never too late to have a happy childhood."[1]

Introduction

There are few institutions as rich in history over the past century as New York's fashion modeling industry.[2] Beginning in 1903, when Ehrlich Brothers, a specialty store in New York City, conducted what is widely considered to be America's first fashion show, the fashion and modeling industries became a national phenomenon.[3] A few decades later, the seeds for what is now known as the semiannual New York Fashion Week were planted when, in 1943, a fashion publicist named Eleanor Lambert organized a convention to allow American fashion designers to exhibit their latest creations, via the use of runway shows.[4]

"[D]espite the longstanding presence of the modeling scene in New York, and the increasing number of youths seeking to break into the industry, the New York legislature continues to statutorily discriminate against child models by excluding them from the definition of 'child performers' under state labor laws. This exclusion prevents child models from enjoying the physical, educational, and financial protection that New York labor laws allot to those children the legislature considers to be performers."

While the modeling industry may not be novel, in today's age of social media, the industry is in the public eye more than ever. Through a growing social and online media presence, the industry is reaching out and connecting to a wider consumer base;[5] due to this increased media exposure, more young boys and girls may be aware of the opportunity to try the trade than ever before. In fact, Funnyface Today Inc., a modeling agency in New York, saw a 50% increase in child model applications between 2006 and 2009.[6] However, despite the longstanding presence of the modeling scene in New York, and the increasing number of youths seeking to break into the industry, the New York legislature continues to statutorily discriminate against child models by excluding them from the definition of "child performers" under state labor laws.[7] This exclusion prevents child models from enjoying the physical, educational, and financial protection that New York labor laws allot to those children the legislature considers to be performers.[8]

With the average model's career over by age 20,[9] this quickly extinguishing flame of fame often means that their stories are never told, that any adversity, mistreatment or unfair labor practices that they were subjected to will forever be stifled and hidden under the surface of, say, the latest Louis Vuitton advertisement in last month's edition of *Vogue*. Yet when a young model defeats the law of averages and continues to model as an adult, his or her trials and tribulations have a much greater chance of being heard.[10] One young model to accomplish this rare career feat was Brooke Shields.

Shields, well known as a model, actress, and former wife of tennis great Andre Agassi, continued her modeling career in 1975[11] when, at the tender age of 10, she was hired to pose nude for a photo shoot in New York for a publication known as *Sugar and Spice*.[12] The photographs, financed by Playboy Press and taken by famed photographer Garry Gross,[13] portrayed Shields "in thick makeup and bejeweled, sitting and standing in a steaming, opulently decorated bathtub,"[14] all while shockingly visibly nude. In order for Shields, who was legally considered an infant, to be permitted to participate in such a risqué, controversial and adult-like display of modeling,[15] her mother, Teri Shields, granted written consent to the defendant in two respects.[16] These included both the right to use, reuse and publish the photographs taken, and the waiver of any right to approve of the means in which the photographs were used.[17]

Five years later, after discovering that these photographs, with Gross's permission, had been published in a French magazine, Shields brought suit to permanently enjoin Gross from any future use or distribution of the photographs.[18] Shields claimed that based on common law and Section 3-105, the section of McKinney's General Obligations Law pertaining to the protection of infants,[19] a court was required to review the contracts of infants before any terms could be consented to.[20] However, the Court of Appeals of New York did not agree with Shields, instead finding that neither the statute in question nor the common law applied to child models; instead only the contracts of infant child *performers* could be reviewed prior to their inception.[21] Therefore, due to Shields' status as an infant model, the consent given by her mother was valid and could not be negated by the aforementioned Section 3-105 of McKinney's, and consequently Shields was barred from bringing legal action.[22] Despite her deep desire to put these photographs behind her and move on with what was to become an illustrious career, due to the state of New York's labor laws, Shields could not enjoin Gross from using, reusing or publishing the photographs.[23]

On the surface, the Shields case seems to be relatively procedural: since she was a child model and not a child performer under the statute, she did not have a claim to revoke the previously given consent to take and use the photographs.[24] However, the precedent that this case sets—and its overall impact going forward—speaks volumes. Based on her mother's consent,[25] Shields was, and remains to this day, barred from preventing the photographs from being used in any and all (non-pornographic) publications and displays.[26] Since she was not, as a child model, provided adequate protection under the law, Shields will forever be subject to reminders of her participation in an activity as a child that she would not have participated in as an adult;[27] the photographs will forever remain an albatross on her otherwise illustrious career.[28]

While Brooke Shields was able to have a successful and profitable career despite the inadequate protection available under the labor laws of New York, she is vastly in the minority.[29] Every year, an increasing number of teen and pre-teen models[30] flock to the fashion mecca of New York City[31] in an attempt to break into the industry. As Amy Odell phrases it in her piece *The Struggles of Girl Models*, "like the clothing business, the modeling business has trends, and the look of very young girls has been a fairly long-lasting one with troubling repercussions."[32] Unlike Shields, most of them do not go on to glamorous careers, but rather work for a short period of time, earning a minimal amount of money.[33] In New York, these short bursts occur primarily during New York's Fashion Week, which takes place every February and September.[34] During all modeling jobs, not just Fashion Week, these young models are exposed to the sexualized, adult-like modeling industry at a very tender and impressionable age.[35] This industry is entirely focused upon physical appearance which, according to Sara Ziff, president of the Model Alliance,[36] "has no restrictions regarding who can model clothing for adults."[37] These models are regularly without supervision by parents or guardians, leaving them exposed to sexual harassment by the fashion designers or photographers who employ them.[38] Additionally, the constant pressure on these young models to be as thin as possible exposes them to a variety of mechanisms for losing weight, including anorexia, bulimia, and even hard drugs like cocaine.[39] Aside from this persistent pressure, these models are simply worked to the bone.[40] While on paper there are restrictions on work hours for models under the age of 18,[41] they are rarely adhered to, and "plenty of young girls will find themselves working long, late hours without proper meal and rest breaks or chaperones, with little or no money to show for it."[42]

As highlighted by Brooke Shields' ordeal, the hardships faced by young models in New York are largely attributable to the subpar and rarely enforced labor laws that protect child models.[43] Whereas other states, such as California, include models in their definitions of "minors in the entertainment industry," ensuring that they receive the same protection as other child performers,[44] New York continues to keep models and performers statutorily separate.[45]

I. The Current State of New York Labor Law Legislation

A. New York's Legislation for Child Performers

Before exploring the lack of adequate child model labor protection, it is important to first examine New York's existing legislation designed to protect child performers.

1. Defining "Child Performer"

The Child Performer Education and Trust Act of 2003 (CPETA)[46] amended New York labor law by adding Article 4-A, entitled "Employment and Education of Child Performers."[47] The purpose of this amendment was to provide detailed regulations of both the employment and education of these young performers, as well as to outline civil penalties for failure to enforce the regulations.[48] According to former State Senator Guy Velella, who was Chair of the New York Senate Labor Committee at the time the bill for this Act was passed, "this bill will ensure that child performers receive an adequate education and have better protections for their earnings."[49] Article 4-A begins with a lengthy list defining what constitutes an artistic or creative service, which includes "actor, actress, dancer, musician, comedian, singer, stunt-person, voice-over artist…songwriter, musical producer or arranger, writer, director," among others.[50] However, the lengthy list does not include models.[51] Article 4-A proceeds to define a "child performer" as any child younger than 18 years of age who either "resides in the state of New York and who agrees to render artistic or creative services" or who "agrees to render artistic or creative services in the state of New York."[52] This provision has proven particularly frustrating for Model Alliance founder Sara Ziff in her quest to prove that child models deserve to be on equal footing with child performers.[53] While testifying in front of the New York State Department of Labor in September 2012, Ziff stated that "children who are paid to model render the same 'artistic or creative services' as dancers, actors, and other children who are protected by the regulations…modeling in a runway show…before an audience is no different than any other choreographed stage performance in which a dancer or actor might engage."[54]

2. Necessity of Work Permits

Article 4-A also includes a number of requirements which outline the process for a child to obtain a work permit, a necessity in order to receive and maintain employment as a performer.[55] One such requirement makes it absolutely mandatory for a child performer to have an employment permit,[56] and another allows that as long as such a permit has been issued, "a child performer may be employed, used or exhibited in any of the…performances set forth in…section 35.01of the arts and cultural affairs law."[57] In consideration for the safety, physical and educational well-being of child performers, Article 4-A includes a provision under which the Department of Labor can refuse to grant a permit in the event that granting it would "allow a child to participate in an exhibition, rehearsal, or performance which is harmful to the welfare, development or proper education of such child."[58] This provision also grants the Department of Labor the authority to revoke, for good cause, any permit that may have already been granted.[59] In similar fashion, the Department drafted a section of 4-A that incentivizes employers to ensure that their child performers have the required permits.[60] Under this provision, "failure to produce any permit or certificate either to work or to employ is prima facie evidence of the illegal employment of any child performer whose permit or certificate is not produced.[61]

3. Education Requirements

In addition to employment requirements, the New York legislature also drafted a number of education requirements as part of Article 4-A.[62] These requirements mandate that "a child performer shall fulfill educational requirements as set forth in part one of article sixty-five of the education law."[63] Should the child performer be unable to meet these educational requirements, the employer must "provide a teacher, who is either certified or has credentials recognized by the state of New York, to such child performer to fulfill educational requirements pursuant to the education law."[64] In addition, the legislature included a provision ensuring that the parents of child performers stay involved in their educational well-being, mandating that the parents "shall work with the certified teacher provided to the child performer and the child's school of enrollment to fulfill such educational requirements."[65]

4. Enforcement Mechanisms

While it may be difficult to pass legislation of any type, it is even more difficult to ensure that such legislation is enforced without the proper mechanisms in place. The New York legislature created such a mechanism in the form of civil penalties.[66] Should the Department of Labor find "that a child performer's employer has violated any provision of this article [4-A]," the Department is entitled to assess civil penalties of up to $3,000 per violation.[67] The money collected for these violations is subsequently placed in the Child Performer Trust Account (Trust Fund or Trust Account).[68]

5. Trust Accounts

In addition to creating Article 4-A of the New York Labor Law, the CPETA also provided for the creation of a Trust Fund.[69] This provision created a formal procedure, via the establishment of a trust account, for the handling of finances for child performers.[70] This legislation was added primarily to avoid a situation in which employers take advantage of the youth of the performers by withholding money owed to them.[71] Under this statute, within 30 days of employment, an employer "is required to transfer fifteen percent of gross earnings to the custodian of the child performer's trust account."[72] If no account has yet been established by the parents or guardians of the performer, then the employer must transfer the money "to the state comptroller for placement into the child performer's holding fund."[73] Aside from employers, the custodians or guardians of child performers must also comply with the "Trust Account" provisions; the law states that "within fifteen days of the commencement of employment the child performer's guardian or custodian must establish a child performer trust account," and must subsequently notify the employer of its existence.[74] Additionally, as a "safety net" offering further financial protection, "once the child performer's trust account balance reaches two hundred fifty thousand dollars or more a trust company shall be appointed as custodian of the account."[75] Once the child performer reaches the age of 18, the legislation permits him or her to terminate the Trust Account.[76]

The passing of the CPETA was undoubtedly a major recognition by the New York State Senate of the significant problems plaguing children employed in the entertainment industry. As then-State Senate Majority Leader Joseph L. Bruno stated, "this legislation will protect New York's children working in the entertainment industry while providing them an education outside of their trade and ensuring their financially stable future."[77] Senator Bruno also stated that "safeguarding our children has always been a priority of the Senate, as it should be for each person who raises a child."[78] However, it seems as though by failing to include child models under this Act, the New York Senate chose to only safeguard some children, while leaving those in the modeling industry significantly less protected.[79]

B. New York's Legislation for the Employment of Minors

While the CPETA amended the New York Labor Law to include Article 4-A, which pertains specifically to child performers, the New York legislature enacted Article 4 in 1962, which pertains generally to the employment of minors.[80]

1. Limitations Based on Age-Bracket

Throughout Article 4, the legislature drafted a number of different provisions for minors of different age brackets.[81] For minors under 14 years of age, the legislature expressly prohibits the employment of minors "in connection with any trade, business, or service," unless they fall under one of the exceptions listed in the section.[82] One such exception allows the employment of a minor under 14 years of age as a **child performer**, as long as such employment complies with the Department of Labor's child performer laws (as discussed above in Part I-A).[83] Another exception allows the employment of a minor less than 14 years of age as a child model, as long as such employment complies with the Education Department's child model laws (as discussed below in Part I-C).[84] Whereas Article 4 imposes heavy restrictions on the employment of minors under 14, it is more lenient for minors between the ages of 14 and 17.[85] Article 4 only prohibits the employment of these minors when "attendance upon instruction is required by the education law."[86]

Aside from discussing whether or not minors are allowed to work, Article 4 also outlines restrictions for those minors who are permitted to obtain employment.[87] Minors 14 and 15 years of age may not work "more than three hours on any school day," or "more than eight hours on any day when school is not in session," nor may they work more than "eighteen hours a week," "more than six days a week," or "after seven o'clock in the evening or before seven o'clock in the morning."[88] However, these work restrictions do not apply to child models whose employment is governed by the Education Department's child model laws (as discussed below in Part I-C).[89]

2. Enforcement Mechanisms

Additionally, Article 4 contains mechanisms to enforce the previously discussed provisions, in the form of both civil and criminal penalties.[90] If it is discovered that any provision of Article 4 has been violated by an employer of minors, the Department of Labor may "assess the employer a civil penalty of not more than one thousand dollars for the first such violation, not more than two thousand dollars for the second violation, and not more than three thousand dollars for a third or subsequent violation."[91] Additionally, should a minor suffer serious injury or death in relation to an employer's violation of Article 4, "such penalty shall be treble the maximum penalty allowable under the law for such a violation."[92] Aside from civil penalties, employers who knowingly violate Article 4 may face criminal penalties, as they will be "guilty of a misdemeanor, and upon conviction therefore shall be punished by a fine of not more than five hundred dollars or imprisonment for not more than sixty days."[93]

As demonstrated by the highlighted provisions of Article 4 of the New York Labor Law, there are many enforcement mechanisms in place to ensure a safe environment for minors in the work force, such as age restrictions,[94] a concern for school days,[95] limitations on working hours,[96] and both civil penalties[97] (monetary) and criminal penalties[98] (either monetary, imprisonment, or both) for lack of enforcement. However, the New York legislature, in every one of the provisions mentioned above, goes out of its way to state that Article 4 (and all of its safety mechanisms) does not apply to child models; instead one must look to the Education Department, rather than the Department of Labor (whose entire purpose is to regulate the work force) for any law regarding the employment of child models.[99]

C. New York's Existing Legislation for Child Models

Under New York Law, unlike child performers, child models are not regulated by the Department of Labor; instead they are regulated by the Department of Education via N.Y. Arts & Cultural Affairs Law § 35.05[100] and the New York Compilation of Codes, Rules and Regulations § 190.2.[101] Not only do these entangled regulations offer minimal protection for the models, they make it difficult for people, mainly the employers who are supposed to abide by these laws, to even locate them to know what the laws mandate.[102] Even Sara Ziff, founder of The Model Alliance and a former child model, had a difficult time locating the rules contained in the child model regulations.[103] In an interview with Buzzfeed.com, Ziff voiced her frustrations with the oversight for child models.[104] Ziff stated that "one day she decided to call the Department of Labor in New York to find out if the laws for child models are on the books anywhere. Within a few hours and 'after getting passed around to like 50 different people' because 'no one knew anything'…she found them."[105]

1. The Education Department's Work Permit Requirement

In wording quite similar to that required by the New York Department of Labor for child performers, the Education Department mandates that "it shall be unlawful to employ, use, exhibit, or cause to be exhibited a minor as a model unless…a child model work permit has been issued."[106] However, unlike the labor laws for child performers, under this law, employment of a minor as a model must be "in accordance with the rules and regulations promulgated by the **commissioner of education**,"[107] rather than by the Department of Labor. In order to obtain a permit allowing a minor to be employed as a model, the minor or his or her parent or guardian must apply to the commissioner of education, and must include with the application a certificate from a physician showing that the minor is physically fit to be employed or exhibited as a model.[108] Once the child model work permit has been issued by the commissioner of education, the permit must be "signed by each person employing, using or exhibiting the minor **prior to the commencement** of the minor's employment," and such employment cannot commence unless the permit has been signed by the employer.[109] In order to enforce these permits, the "commissioner of education may promulgate rules and regulations…designed to protect the health and welfare of child models,"[110] and the permits "may be revoked by the certificating officer at any time for good cause."[111] Additionally, the Department of Education claims that "violation of this section shall be a misdemeanor."[112] However, despite this declaration, the Department of Education provides no guidelines or mechanisms to enforce these requirements.[113] While this law does not state what types of child models it applies to, it explicitly states that "this section shall not apply to the employment…of a minor as a model…in a television broadcast or program for whom a permit has been issued pursuant to section one hundred fifty-one of the labor law."[114]

2. Supervision and Age Restrictions

In addition to work permits, the Education Department has also drafted legislation requiring the supervision of child models.[115] This law provides that a minor employed as a model "shall be accompanied by the parent or guardian of such minor or by an adult designated in writing by such parent or guardian," and that no minor shall be employed as a model "during the hours he is required to be in attendance in the school which he is enrolled."[116]

The Education Department additionally provides a list of restrictions on working hours for minors employed as models based on their ages.[117] Children under the age of seven may not be employed as a model "for more than 2 hours in any 1 day and not more than 10 hours in any 1 week, nor shall such minor be so employed…between the hours of 6 p.m. to 9 a.m."[118] For those child models between the ages of seven and 13, they may not be employed during the school year for "more than three hours in any one day in which school is in session or four hours in any one day in which school is not in session, but not more than 18 hours in any such week,"[119] and "no such minor shall be employed…between the hours of 6 p.m. and 9 a.m."[120] For those child models aged 14 or 15, they may not be employed during the school year "more than three hours in any one day in which school is in session or eight hours in any one day in which such school is not in session, but not more than 23 hours in any such week."[121] When school is not in session,[122] they may not be employed "more than 40 hours in any such week,"[123] and they shall never be required to work between the hours of 6 p.m. and 9 a.m.[124]

For the slightly older models, those between 16 and 17 years of age, they may not be employed as a model during the school year for "more than four hours in any one day in which such school is in session or eight hours in any one day in which such school is not in session, but not more than 28 hours in any such week."[125] When school is not in session, no such minor may be employed as a model "more than 48 hours in any such week."[126] Additionally for this age bracket, "no male minor 16 or 17 years of age shall be employed…as a model between 12 o'clock midnight and 6 a.m. and no such female minor shall be so employed between 10 p.m. and 7 a.m."[127] In addition, these age restrictions reiterate the necessity of a child model work permit, stating that these permits "shall accompany each minor…employed as a model,"[128] and notes that these permits "may be revoked by the certifying officer at any time for any violation of law or of these regulations or for any other good cause."[129] However as discussed immediately below, the Education Department has failed to provide a system to enforce these regulations.

3. The Lack of Enforcement Mechanisms

While the permit process and the age and hour restrictions seem thorough on their own, there are practically no mechanisms for enforcement of these provisions by the Education Department, aside from the vague threat of a misdemeanor.[130] This lack of enforcement leads to an overabundance of direct violations of these permit, age and hourly provisions; according to Ziff, "in my 15 years working as a model, I have never seen a child model carrying a work permit, nor has a single agent I've asked."[131] A significant part of the problem is that, as Ziff pointed out earlier, the child model regulations are extremely difficult to locate, and they are more than likely unbeknownst to potential employers.[132] As Buzzfeed.com writer Amy Odell notes:

> Inspectors certainly don't roam castings and fashion shows to make sure 16 and 17-year-old models are getting their permits signed. That's good for the foreign models who are just here for a couple of weeks to see if they can "make it," aren't legal to work here, and probably wouldn't be able to get permits—but not so great for the industry as a whole.[133]

As a result, countless numbers of these young models, who are simply happy to find employment, even on short term bases, are more than likely at the complete control of their employers or photographers, no matter what that might entail. If by some small chance the model was aware of these regulations, and attempted to enforce them, the employer could easily choose another off of the endless assembly line of young models, one who would be more willing to adhere to his or her conditions. It is this fear of unemployment that keeps these models from protesting,[134] and these inadequate and rarely enforced regulations allow this cycle to continue.

II. The Detriment Faced by Child Models

In the Brooke Shields case examined above, Shields was fortunate enough to be in a position to both overcome the adversity she faced as a 10-year-old child,[135] and to continue on to have a celebrated career despite her unsuccessful suit to enjoin the photographer from continuing to use the photos.[136] However, Shields is in the minority. The vast majority of young runway and print models are too afraid—of losing out on an opportunity to break into the industry, or of being forced to go back empty handed and unemployed to the country or city from whence they came—to bring attention to issues that they might face.[137] In her interview with Odell, Sara Ziff stated, "I don't think anyone would disagree that really young models generally are not willing or able to stand up for themselves or ask to be paid for their work or set limits on the kind of pictures they want to take and whether they want to appear nude or not."[138]

This article will now examine the physical health and safety detriment, the educational detriment, and the financial detriment that regularly plague child models. Additionally, it will examine how these dangers and detriments can be diminished to the point of near extinguishment by a classification of child models as "child performers" under the New York Labor law.

A. The Physical Health and Safety Detriment

While certainly not the only detriment that child models regularly face, arguably the most prominent issue in the public eye is the constant compromise of models' physical health and safety.[139] Due to the lack of legislatively mandated regulation over the child modeling industry, young models are frequently unsupervised.[140] Consequently, these young models are often left to essentially supervise themselves, which leaves them vulnerable to pressures from their employers or the industry in general.[141]

1. Cruel Labor Practices

Of the various harms that frequently envelop these young models, one of the most significant is the frequency of cruel labor practices.[142] According to Sara Ziff, 16-hour work days were common for her and her peers when she was a 15-year-old model in the late 1990s.[143] Additionally, according to Amy Odell, the majority of the teenage models hired to work during New York Fashion Week do not have the required permits, and are often required to work until extremely late hours,[144] which blatantly ignores the regulations for child models[145] as set out by the New York Education Department.[146] For many young models, the extended working hours simply mean they will get back to their homes at a later time than they anticipated. Yet there are just as many of these young models who come from around the world seeking to break into the modeling industry, and these unfair labor practices have significantly more of a detrimental effect upon them.[147]

This behavior by the modeling industry and the impact it has on foreign child models is at issue in the 2012 documentary *Girl Model*.[148] The film provides an unflattering and realistic depiction of the exploitive nature of the modeling industry, focusing in particular on very young models who travel to faraway countries "without chaperones or things as basic as work hour limits and monetary compensation."[149] The film focuses on a 13-year-old aspiring model from Russia named Nadya. Naïve Nadya, who speaks no language but her native tongue, is plucked from her home by an intimidating Russian agent and whisked to Tokyo, because "the Japanese like their models young and fresh."[150] Young Nadya has an ominous first experience in Tokyo, where she is dragged to the city morgue by the Russian agent, a common practice of his that he claims to do to "show them just how badly things can end for a recruit who doesn't do what she is told."[151] The film proceeds to follow Nadya to casting calls, where she is forced to stand in a skimpy bathing suit amongst hundreds of similarly clad girls.[152] These girls are required to stand in front of a panel of casting directors and judges who take their measurements with a tape measure and poke and prod them like farm animals.[153] At one of these casting calls, one man, while helping Nadya with her wardrobe and makeup, suggests that she tell the casting directors she is 15 rather than 13, as it would be easier for her to find work that way.[154] Throughout the film, 13-year-old Nadya is seen trying to navigate Tokyo by herself, in order to make it from one casting call to another, while failing to receive monetary compensation from any of them.[155] In fact, she is forced to live in a tiny apartment with other aspiring models while paying rent directly out of her pocket, a pocket that, as a poor 13-year-old from Russia, is not particularly deep.[156] In one heart-wrenching scene, Nadya, after leaving a casting call, is seen hysterically crying on the phone to her mother and begging to come home, while her mother insists that she stay.[157] While the film is left open-ended regarding Nadya's career prospects, the statistics are not encouraging. According to Ashley Arbaugh, a modeling scout featured in the film, "fewer than a handful of recruits will ever actually make it as a model," and subsequently the rest of these aspiring models are sent home to their parents in severe debt, without any of the money that they may have been promised at the outset.[158]

Girl Model, while not taking place in New York, should, as Amy Odell writes, "resonate with a lot of models currently walking the runways at New York Fashion Week."[159]

2. Sexual Exploitation and Harassment

In addition to cruel labor practices, another constant threat to the physical harm and safety of child models is the ever-present threat of sexual exploitation and harassment.[160] Whereas New York's labor laws require a highly strict degree of supervision for actors, singers, and other types of child performers, due to the lack of regulation of the child modeling industry, models often find themselves unsupervised at a very young age (like Nadya in the *Girl Model* documentary), leaving them quite vulnerable to advances by agents, employers, or photographers.[161] These young models are often put into compromising positions where they feel that, out of fear of losing out on a job or modeling opportunity, they are not in a position to reject such advances, no matter how unwanted they may be.[162]

In a recent survey conducted by the Model Alliance, an astounding 87% of the underage models surveyed claim that they have been asked to pose completely nude during a modeling job or a casting session without any form of advanced notice; of those models put in such an uncomfortable position, 27% agreed to the request, because they felt that they had to out of fear of losing their job.[163] Additionally, not only did 30% of the models surveyed say that they have been touched inappropriately during modeling jobs, but an eye-opening 28% confessed that they had actually been pressured to engage in sexual acts with someone at work.[164] While New York's labor laws provide child performers with an outlet, in the form of unions,[165] to bring forth their problems, no such outlet exists for child models.[166] In the same survey, only 29% of models who had been sexually harassed during a modeling job felt that they could tell their agencies, and two-thirds of those who had the courage to speak up found that their agents failed to take any action.[167] The fact that over 70% of the models surveyed felt that they could not come forward to their agencies[168]—the very entities that matched them up with their sexually exploitive employers in the first place—speaks volumes about the need for reform, so that these young models can have powerful outlets to bring forth their problems and concerns without fearing for their jobs.

3. The Presence of Cocaine

Aside from overbearing labor practices and the constant presence of sexual harassment and exploitation by employers, child models regularly face a plethora of other threats and exposures that put their health at risk. Young models are regularly pressured to lose weight by both their agencies and employers.[169] In fact, according to the survey conducted by the Model Alliance, over 64% of models have been asked to lose weight by their agencies or employers, and over 31% have subsequently developed an eating disorder.[170] Due to the constant threat to lose weight, young models are regularly exposed to the dangerous drug cocaine.[171] Since suppressed appetites are a major side effect of the drug,[172] it is quite commonly found throughout the modeling industry.[173] In the Model Alliance's survey, over 50% of the models surveyed claim to have been exposed to cocaine in the workplace, and almost 25% surveyed say that such exposure has led to a development of a drug or alcohol problem.[174] As child models are not protected by New York's labor laws, they do not have outlets such as labor unions to turn to with their issues or who will negotiate solutions for them.[175] Consequently, almost 30% of these young models lack health insurance,[176] causing the metaphorical knife of the health risks of the modeling industry to dig even deeper.

B. The Educational Detriment

In addition to the various physical health and safety issues that could be significantly mitigated by the reclassification of child models, these models are also at risk of being educationally disadvantaged by their exclusion from the labor laws. As examined above, the CPETA requires that the employers of child performers provide a teacher to the performers if the minors are required to miss a substantial amount of normal schooling, and the employers must also coordinate with the child's school to ensure that all educational requirements are being met.[177] However, there exists no such requirement for child models.[178]

With days routinely extending to 16 hours[179] there is not much time left in the day to devote to studying, and without supervision, these young models are likely to advance into adulthood without much of an education.[180] With the nature of the modeling industry being competitive, and with careers being short-lived,[181] countless former child models are left facing the majority of their lives with their intended career already in the rearview mirror, and due to their minimal education, there are not a surplus of doors open to them. According to Ziff, "without provisions for tutors, many young models drop out of school to pursue short-lived careers that leave them in debt to their agencies."[182] By classifying child models as child performers under New York labor laws, it would go a long way towards ensuring not only that these children who find themselves in the modeling industry keep up with their schoolwork, but that they also are put on a path to succeed in the inevitable life after modeling.

C. The Potential for Financial Exploitation by Parents

A major issue regarding the financial well being of child models involves the potential for financial exploitation by their own parents. While Brooke Shields certainly may have been a photogenic child, she most certainly did not approach photographer Garry Gross or *Sugar and Spice* magazine[183] as a 10-year-old seeking to be photographed nude in a bathtub for national publication. Rather the "method behind the madness" was Shields' ambitious mother, Teri.[184] Teri Shields began exploiting her daughter's photogenic qualities when Brooke was only 11 months old, putting her in magazine advertisements and television commercials.[185] The exploitation continued as Brooke aged, as in addition to the infamous bathtub photo shoot, Teri also helped Brooke land roles in the movies *Pretty Baby*, where as an 11-year-old she played a prostitute, and *Blue Lagoon*, where at 14 years old she was required to repeatedly be nude[186] (although a body double was used for the nude scenes). When interrogated about her decisions regarding her daughter, Teri responded that "fortunately, Brooke was at an age where she couldn't talk back," and that "people who accused her of exploiting her child were jealous."[187]

While some parents, like Teri Shields, might exploit their children as models out of greed, many force their children into modeling out of economic necessity.[188] In the wake of the economic downturn of recent years, many parents are signing their children up with modeling agencies to add some extra income to the household.[189] In an interview with the *Wall Street Journal*, the mother of a 4-year-old girl said of signing her up with a modeling agency, "in a weak economy, with five kids' college tuitions to plan for…I want to make the most out of whatever resources we have."[190] Consequently, with more parents out of work during harsh economic times, they have more free time to take their children to modeling auditions.[191] Therefore the competition is stiffer, and parents are more likely to put their children in less-than-ideal situations in order to bring home a paycheck.[192] Essentially these parents are admitting to exploiting their children as models for monetary purposes, but using the rationale of economic necessity to shield themselves from liability or criticism.

Whether the child models later become famous (like Shields) or are attempting to break into the industry, there is an actual danger of financial exploitation by these models' parents.[193] If child models were to simply be included under the classification of child performers under New York Labor Laws, then the CPETA would apply to them, thus requiring these ambitious parents to establish a trust.[194] By requiring a large percentage of the model's earnings to be placed in the trust, becoming accessible only to the model upon his or her 18th birthday,[195] it would essentially add a speed bump between a child model's earnings and the parents' bank accounts, and it might make some of these parents think twice before thrusting their children onto runways in provocative outfits,[196] or into the pages of magazines wearing little to no clothing,[197] and would further protect the young models of New York.

D. Potential for Financial Exploitation by Employers and Agents

Under current New York law, child models are left extremely vulnerable to the possibility of financial exploitation by not only their own parents, but their agencies and employers as well.[198] Due to the youth of these models and their lack of life experience, they rarely have the upper hand in any sort of financial negotiation.[199] Says Amy Odell, "many of these young girls haven't had more than a babysitting job, much less the experience to know how to negotiate complicated contractual agreements with their agencies and clients as freelance workers."[200]

For every legitimate agency on the market there are a number of "scam" operations, which take advantage of naïve young models.[201] One such operation commonplace in the modeling industry is the "photo mill" modeling scam, where models are recruited by an "agent" to have expensive photographs taken on site.[202] These operations "travel the country setting up shop in a mall, a convention hall, a hotel, a studio, or any other venue that they can fit many people into."[203] The models are required to both pay for the photographs up front and to leave their contact information so the "agency" can find placements for them, which of course they rarely do.[204] Aside from high start-up costs,[205] it is common for agencies to take advantage of young models, who either through naïveté, a language barrier, or some combination thereof, are oblivious of the specifics of the financial arrangements into which they are contracting.[206] When disputes arise, these models are left unaware of how to handle them.[207]

In 2012, Anderson Cooper conducted an expose of the child modeling industry in order to illustrate the expenses that parents are willing to incur to break their children into the business, as well as the frequency of agency scams that these parents are likely to encounter along the way.[208] In one segment of the show, a hidden camera was set up in a fake modeling agency office in midtown Manhattan, where parents, with young children by their side, met with an "agent" (played by an actor).[209] The parents were asked questions pertaining to what their children would be comfortable doing for a modeling opportunity.[210] One parent, when told that before any casting decisions for her daughter would be made, she would need to pay $750 to $1,000 up-front to have photographs taken, agreed without hesitation.[211] Subsequently one of Cooper's correspondents entered the room to explain the ruse, pointing out that the parent did not make any effort to research who this modeling agent was before either going to speak with him or offering to hand him large sums of money up-front.[212] While Cooper's hidden-camera experiment may have saved a few young models from financial exploitation by agencies, countless others will not be as fortunate, and will naïvely end up paying large sums of money to agencies for little to no return on their investment.

Aside from modeling agencies, child models in New York are often left extremely vulnerable to financial exploitation by their employers.[213] A main reason for such exploitation is that due to a lack of a governing agency, union, or regulator over the models, there is no industry standard that mandates how models receive payment for their work.[214] Consequently, at many modeling jobs and opportunities, especially during New York's high-paced Fashion Week, "payment for runway modeling often comes in the form of clothing or accessories (known as "working for trade") instead of actual money."[215] While on paper, receiving free clothing may seem like a nice perk that comes with the territory of being a model, when it comes in substitution of an actual paycheck, it is blatantly problematic.

It would be easier to rationalize the "working for trade" phenomenon if it was being orchestrated by up-and-coming companies, who might not have the disposable income necessary to pay their models at events such as New York's Fashion Week. However, this practice is widely conducted by large-name brands in the fashion industry.[216] One top designer, Marc Jacobs, whom Ziff describes as "at the helm of a big global brand,"[217] is notorious for this behavior.[218] This issue was brought to the forefront when a 17-year-old model named Hailey Hasbrook publicly complained about her treatment when employed by Marc Jacobs.[219] Hasbrook complained that she was required to often work until 4:30 in the morning while working with the Jacobs team.[220] Marc Jacobs himself, in response to Hasbrook's accusations, responded seemingly indifferently, stating that "models are paid in trade. If they don't want to work with us, they don't have to."[221] According to Odell, there was a rumor in the industry that the Marc Jacobs label was to begin paying its models in 2013.[222] However, one young model told Odell that the Jacobs label has regularly made such promises, but has never made any significant attempts to follow through.[223] A consequence of this behavior by Marc Jacobs, and other large brands in its class, is a trickle-down effect.[224] If these large, global brands are not paying their models, it takes away the incentives for smaller brands to do so, leading to this behavior becoming the standard within the industry.[225]

Unfortunately, in New York models are legally treated as independent contractors, making it impossible to unionize.[226] Without unionization, there is neither a governing body nor a negotiating committee to ensure that models are even paid in actual currency.[227] Therefore, even if child models were included in the definition of child performers under New York labor laws, there would still be a significant amount of loopholes for employers themselves to continue to financially exploit child models.[228] Additionally, the modeling agencies cannot guarantee employment to the child models they represent, so even if child models were reclassified as performers, there is no guarantee of income that would be protected by the CPETA.[229] Amending New York's labor laws would contribute significantly to reducing the potential for physical and educational harm, and would substantially hinder financial exploitation by the parents of models. However, making such an amendment would not cut off all avenues of exploitation, and it is conceded that other avenues of progress must be considered in order to pave the way for complete protection of New York's child models.

III. Looking to California as a Standard

Aside from the state (and city) of New York, the most prominent state in the entertainment industry is California.[230] With Los Angeles, its most populous city,[231] producing a significant quantity of the world's television shows, films, stage productions and music, there is a substantial need for proper labor laws to ensure that the industry continues to run smoothly. In response to this need, California's Department of Industrial Relations (Division of Labor Standards Enforcement) decided, unlike its East Coast counterpart, to classify models under its definition of the "Entertainment Industry."[232] Under these regulations, the division lists minors engaged in "modeling" alongside those engaged in motion pictures, theatrical or musical performances, photography, circuses, rodeos, and "any other performances where minors perform to entertain the public."[233]

One of the most prominent features of these California laws is the institution of what they refer to as a "studio teacher."[234] A studio teacher, by definition, is a "certified teacher who holds one California teaching credit… that is valid and current, and who has been certified by the Labor Commissioner."[235] Additionally, employers of minors in the entertainment industry are required to provide a studio teacher on "each call for minors age fifteen (15) days…to age eighteen (18).[236] However, in addition to being an actual teacher of educational material, studio teachers also serve as a general guardian for the minors in their care.[237] The studio teachers "shall also have responsibility for caring and attending to the health, safety, and morals of minors under sixteen (16) years of age for whom they have been provided by the employer, while such minors are engaged in or employed in any activity pertaining to the entertainment industry."[238]

Additionally, whereas the models of New York are regularly exposed to dangerous working conditions, cruel labor practices, drugs and sexual exploitation,[239] in California the studio teachers can act as a buffer to shield young models from such perils.[240] In the course of his or her employment, "the studio teacher shall take cognizance of such factors as working conditions, physical surroundings, signs of the minor's mental and physical fatigue, and the demands placed upon the minor in relation to the minor's age, agility, strength, and stamina."[241] Subsequently the studio teacher, if he or she feels that working conditions are not or are no longer ideal for the minor, "may refuse to allow the engagement of a minor on a set or location and may remove the minor therefrom, if in the judgment of the studio teacher, conditions are such as to present a danger to the health, safety, or morals of the minor."[242] California's labor laws also require an employer in the entertainment industry to obtain permits from the Division of Labor Standards Enforcement.[243] Whereas the permit process for models outlined by the New York Department of Education[244] has no true enforcement mechanism, any violation of California's child labor regulations by an employer can result in the revocation or suspension of a permit.[245] Additionally, such employers are prohibited from taking action against any studio teacher who may have reported such a violation of the labor laws.[246]

IV. Why Child Models Should Be Classified as Child Performers Under New York Labor Laws

In order to ensure their utmost protection from the perils of the modeling industry, New York's Department of Labor should classify child models under the definition of child performers. Procedurally, this reclassification would have the effect of providing child models with the protections granted by the CPETA.[247] Under this Act, child models, like their child performer counterparts, would be required to obtain permits from the Department of Labor, which employers would be mandated to check at the risk of facing civil penalties.[248] Additionally, this Act would ensure that child models would receive proper education, by requiring employers to provide teachers to the model minors if their modeling schedule prohibits them from receiving adequate and regular schooling.[249] This teacher would also serve as a supervisor or chaperone of sorts, and would provide a buffer between the child models and an array of dangerous or exploitative behavior. This Act would also establish a trust account for child models, which would help reduce the incentive for, and results of financial exploitation by parents and employers.[250]

Without proper protection, or mechanisms to enforce those protections, young models will continue to be vulnerable to a number of dangerous physical workplace situations. Sexual exploitation or harassment by employers who threaten that the models could lose their jobs unless they comply, or the ever-present access and pressure to use cocaine to aid in weight loss, will continue to run rampant throughout the industry.[251] Additionally, for models who proceed to illustrious careers, like Brooke Shields, or those who find less success, like Nadya from the film *Girl Model*, the possibility of financial exploitation by parents, employers, and agents will continue to be a persistent threat.[252] Aside from physical and financial detriment, these young models will continue to be educationally disadvantaged, as there will be nothing to require them to keep up with their schooling.[253] This lack of educational supervision could prove extremely disadvantageous for aspiring models, who more often than not are subject to short-lived careers.[254]

Despite the dangers and detriments child models regularly face, a significant reason why they continue to be statutorily segregated from child performers is due in large part to the inherently fleeting nature of the modeling industry.[255] Unlike actors or other performers who work on either a movie or television studio or at a theater or concert venue for long periods of time, modeling jobs are quite irregular.[256] Due to this irregularity, New York seems, in the opinion of this author, reluctant to subject the employers of models to the same high standards that it has for the employers of other performers. A major reason for this could be that if all of these employers are suddenly subject to significantly more liability, it could subsequently lead to an influx of litigation against such employers. This added liability could cause a massive hindrance to not only the modeling industry, by introducing many obstacles to the process of hiring a model for such a short period of time,[257] but to the court system as well, due to the flood of litigation that is sure to occur against modeling agencies and employers by jilted models who wish to take advantage of their new-found legal basis.[258]

If the New York legislature is not willing to change the statute completely, thus holding employers to a much higher burden, it should at least institute a more strict policy of checking the permits for child models required under N.Y. Arts & Cultural Affairs Law 35.05,[259] similar to that required by the New York Labor Law. Under this law, "no permit shall allow a child to participate in an exhibition, rehearsal, or performance which is harmful to the welfare, development, or proper education of such child. A permit may be revoked by the department for good cause."[260] By strengthening the permit-checking and monitoring process, especially at major events such as New York Fashion Week, it could at least lighten the load of child models who are unfit to be working or who are forced to work under dangerous conditions.[261]

Additionally, New York should take a page from California's book and institute a version of the "studio teacher" required by the latter's labor laws.[262] In California, these studio teachers are required not only to serve as tutors for the child performers, but they also must keep up with the physical and mental well-being of the performers, as well as monitor the environment in which they work.[263] If a problem arises, these studio teachers have the ability to report it directly to California's Division of Labor Standards Enforcement.[264] If the New York Department of Labor were to require some form of a guardian akin to these studio teachers to accompany underage models, even if feasible at only larger events, such as runway shows or photo shoots for major publications, it would be a step in the right direction. These guardians would go a long way towards protecting young models from the perils of the modeling industry, while holding employers to a higher standard of accountability.[265] The presence of such protective figures could also contribute significantly towards the educational well-being of underage models, by ensuring that they obtain the appropriate schooling, and subsequently remain on a positive educational track.[266]

Conclusion

The New York Department of Labor should amend its labor laws, specifically the CPETA, to include child models under the definition of child performers. This amendment would substantially protect child models from the physical, financial and educational perils they regularly face, while granting them the same privileges and protections allotted to their colleagues in other areas of the performance industries.[267] If the New York legislature is not willing to fully amend the statute, it should look to California's standard of requiring a studio teacher to chaperone child models, which would go a long way towards protecting the overall well-being of young models.[268] As the opening quote of this article states, "It is never too late to have a happy childhood,"[269] and by reclassifying child models as child performers, New York could do its part to ensure that such a mantra for child models remains true.

Postscript

On 6/12/13, a bill recognizing runway and print models under 18 years of age as child performers was passed by both houses of the New York State legislature. As of this writing, it is awaiting Governor Cuomo's signature to become law.

Endnotes

1. Tom Robbins, Still Life With Woodpecker 28 (Bantam, 1990).
2. Amanda Fortini, *How the Runway Took Off*, Slate (Feb. 8, 2006), http://www.slate.com/articles/arts/fashion/2006/02/how_the_runway_took_off.html.
3. *Id.*
4. *Id.*
5. Hitha Prabhakar, *How the Fashion Industry is Embracing Social Media*, Mashable, (Feb. 13, 2010), *available at* http://mashable.com/2010/02/13/fashion-industry-social-media/. Last year's Victoria's Secret Fashion Show, which took place in New York, offered viewers seven different ways to view the show online alone. *Online*, Mashable (Dec. 4, 2012), *available at* http://mashable.com/category/victoria-s-secret/.
6. Anjali Athavaley, *How Tough Times Yield Model Children*, Wall St. J., (Nov. 3, 2009), *available at* http://online.wsj.com/article/SB10001424052748703740004574513651147082402.html.
7. Discussed *infra* Part I.
8. Discussed *infra* Part I.
9. *Fashion Model Size Requirements*, Modelingadvice.com (2010), http://www.modelingadvice.com/fashionModelSize.html. Additionally, many fashion agencies will refuse to take on new models over the age of 18. *Age, Sex and Race in Modeling*, newmodels.com (2006), http://www.newmodels.com/race.html.
10. *See* Shields v. Gross, 58 N.Y.2d 338, 448 N.E.2d 108 (1983).
11. Shields' mother, Teri Shields, had Brooke modeling since she was only 11 months old, when she was featured in a magazine advertisement for Ivory Soap. William Yardley, *Teri Shields, Mother and Manager of Brooke Shields, Dies at 79,* The New York Times, (Nov. 5, 2012), *available at* http://www.nytimes.com/2012/11/06/arts/teri-shields-brookes-mother-and-manager-dies-at-79.html.
12. *Shields*, 58 N.Y.2d at 342.
13. Gross, the photographer, was the defendant of the suit brought by Shields.
14. Dennis Hevisi, *Gary Gross is Dead at 73; Photographer of Clothes and Their Absence*, The New York Times (Dec. 7, 2010), *available at* http://www.nytimes.com/2010/12/07/arts/design/07gross.html?_r=0.
15. To see the controversial images in question, see *Children and the Fashion Industry: When Are They TOO Young?* Beautifully Invisible (Jan. 11, 2011), http://www.beautifully-invisible.com/2011/01/children-and-the-fashion-industry-when-are-they-too-young.html.
16. *Shields*, 58 N.Y.2d at 342.
17. *Id.* The Consents provided in pertinent part, "I hereby give the photographer, his legal representatives, and assigns, those for whom the photographer is acting, and those acting with his permission, or his employees, the right and permission to copyright and/or use, reuse and/or publish, and republish photographic pictures or portraits of me, or in which I may be distorted in character, or form, in conjunction with my own or a fictitious name, on reproductions thereof in color, or black and white made through any media by the photographer at his studio or elsewhere, for any purpose whatsoever; including the use of any printed matter in conjunction therewith…I hereby waive any right to inspect or approve the finished photograph or advertising copy or printed matter that may be used in conjunction therewith or to the eventual use that it might be applied."
18. *Shields*, 58 N.Y.2d at 346.
19. This law has since been repealed; however there exists no negative treatment as to this case itself.
20. *Shields*, 58 N.Y.2d at 346. Throughout the case, the term "infant" is used interchangeably with the term "minor," with both terms understood to mean a person under the age of 18.
21. *Id.* at 346. Emphasis added.
22. *Id.* at 346.
23. This was also a terrible financial arrangement for Shields, who was only paid $450 for the photo shoot (a mere fraction of what it must have cost in legal fees to see this case all the way to New York's highest court) with no clause in the contract for additional compensation for any future use of the photograph. *Shields*, 58 N.Y.2d at 346.
24. *Id.* at 346.
25. The court in the *Shields* case does not discuss whether Shields' mother could have later revoked the consent that she gave on behalf of Brooke, rather the discussion is focused around Brooke's inability to revoke the consent given by her mother.
26. *Id.* at 346. The trial court enjoined the use of the photographs in pornographic publications, and neither party challenged this injunction upon appeal.
27. Shields said of the incident, "[at the time of the photo shoot] I wasn't uncomfortable doing it. When I was 16, I wouldn't have done it. That guy [original photographer Garry Gross] waited until I was 16 before he decided to publish it—he tried to take this famous person and sell her out." Kate Bussman, *Brooke's Side*, Easy Living Mag. (Apr. 20, 2011), *available at* http://www.katebussmann.com/brookeshields.pdf.
28. These photographs continue to cause controversy; one of them was to be featured at the London Modern Art Museum in an exhibit entitled "Pop Life: Art in a Material World" but was removed after the Obscene Publications Unit of the Scotland Yard thought it possibly could be considered child pornography. Sammy Rose Saltzman, *"Spiritual America" Brooke Shields Naked Photo Removed From Tate: Child Porno or Art?* CBS News (Oct. 1, 2009), http://www.cbsnews.com/8301-504083_162-5355524-504083.html.
29. Bussman, *supra* note 27.
30. *Wall Street Journal* writer Anjali Athavaley notes that "more parents are signing their children up with modeling agencies and talent classes, in search of fame and, even better, a little extra money in a weak economy," and that a booker from Funnyface, a popular New York talent agency, "estimates the agency's children's division has seen a 50% increase in applicants in the past three years." Athavaley, *supra* note 6.
31. To highlight the prevalence of fashion in New York, there is a three-avenue, 10-block radius near Times Square, the most bustling part of the city, known as the "fashion district" or "garment district." *Garment District*, NYC.com, http://www.nyc.com/visitor_guide/garment_district.75853/editorial_review.aspx.

32. Amy Odell, *The Struggles of Girl Models*, Buzzfeed (Sept. 10, 2012), http://www.buzzfeed.com/amyodell/the-struggles-of-girl-models. Odell also attributes the young starting age of a number of famous supermodels as a major reason for the continuing prevalence of this trend. She specifically mentions Karlie Kloss, Gisele Bundchen and Kate Moss, who began their careers at 13, 13, and 14, respectively.

33. U.S. Bureau of Labor Statistics, March 29, 2012, http://www.bls.gov/ooh/sales/models.htm.

34. *New York Fashion Week Fall-Winter 2013 Schedule*, Newyorkfashionweeklive.com (Jan. 9, 2013), *available at http*://neworkfashionweeklive.com/NYFW-Live/ny-fashion-week-fal-winter-2013-schedule.

35. Tamara Abraham, *Parents' Outrage as Toddlers & Tiaras Star Aged SIX Gyrates on Runway at New York Fashion Week*, Dailymail.co.uk (Sept. 16, 2011), *available at* http://www.dailymail.co.uk/news/article-2037913/Toddlers--Tiaras-Eden-Wood-gyrates-runway-New-York-Fashion-Week.html.

36. The Model Alliance is a nonprofit organization consisting of a network of models and leaders in the modeling and fashion industries. The group, which is based in New York, dedicates itself to improving the standards of the modeling industry, fighting for the rights of models, and providing an outlet to models to air their grievances. Sara Ziff, a 29-year-old former child model and current adult model, is the founder and president of the alliance. *Mission,* ModelAlliance.org (2012), *available at* http://modelalliance.org./mission.

37. Sara Ziff, *Regardless of Age, It's About Rights*, N.Y. Times, (Nov. 12, 2012), *available at* http://www.nytimes.com/roomfordebate/2012/09/13/sweet-16-and-a-runway-model/regardless-of-a-fashion-models-age-its-about-rights.

38. Hayley Phelan, *The Model Alliance Industry Survey Finds Nearly 30% of Models Have Been Sexually Harassed and 50% Exposed to Cocaine*, Fashionista (March 16th, 2012), *available at* http://fashionista.com/2012/03/model-alliances-industry-survey-finds-nearly-30-of-models-have-been-inappropriately-touched-on-jobs-and-50-exposed-to-cocaine/.

39. *Id.*

40. Odell, *supra* note 32.

41. Discussed *infra* Part I-A.

42. Odell, *supra* note 32.

43. *Id.*

44. Discussed *infra* Part III.

45. Discussed *infra* Part I. On February 19, 2013, the New York Department of Labor submitted a Notice of Adoption of 12 NYCRR Part 186. This law, which took effect on April 1, extended the protection allotted to child performers to children "appearing as a model in a television broadcast or program." N.Y. Comp. Codes R. & Regs. tit. 12 § 186-2.1(a)(1) (2013). However, in including children who model on television, the N.Y. legislature explicitly excluded children employed as runway models or those appearing in print media. This separate distinction of models "in a television broadcast or program" is not new; in N.Y. Arts & Cultural Affairs Law 35.05 (discussed *infra* Part II-C), in which the N.Y. Department of Education provides the regulations for child models, the department explicitly defers regulation of a minor employed as a model in a television broadcast or program to § 151 of the N.Y. Labor Law, which applies to child performers. Therefore, there seems to be historical evidence that the N.Y. legislature has always considered child models appearing on television to be performers, and thus separate from other child models.

46. This law took effect on March 28, 2004.

47. See S. 4696-B, Reg. Sess. (N.Y. 2003), the New York Senate Sessions Law on describing the passing and content of this Act, *available at* http://www.labor.ny.gov/workerprotection/laborstandards/PDFs/Child%20Performer%20law%204696-B.pdf.

48. *Id.*

49. *Senate Passes Child Performer Education and Trust Act of 2003,* Serphin R. Maltese Archives (June 24, 2003), http://www.serfmaltesearchives.com/index.php?option=com_content&view=article&catid=16%3A2003&id=143%3A2403--senate-passes-child-performer-education-and-trust-act-of-2003&Itemid=6.

50. N.Y. Lab. Law § 150 (McKinney 2004).

51. *Id.*

52. *Id.*

53. Odell, *supra* note 32.

54. Kelli, *Testimony to the New York State Department Of Labor*, ModelAlliance.org (2012), http://modelalliance.org/2012/testimony-to-the-new-york-state-department-of-labor/testimony-to-the-new-york-state-department-of-labor.

55. N.Y. Lab. Law § 151 (McKinney 2004).

56. *See id.* § 151(1)(b) (McKinney 2004).

57. *See id.* § 151(1)(a) (McKinney 2004). Section 35.01 of the Arts and Cultural Affairs Law pertains to the employment of children as performers. Its purpose is to prohibit a child from being used as a performer **unless** those in custody or control of the child have adhered to the permit process outlined in § 151 of the New York Labor Law. Emphasis added.

58. N.Y. Lab. Law § 151(1)(e) (McKinney 2004).

59. *Id.*

60. *See id.* § 151(5) (McKinney 2004).

61. *Id.*

62. N.Y. Lab. Law § 152 (McKinney 2004).

63. *See id.* § 152(1) (McKinney 2004). Article 65 of the NY education law lists a variety of compulsory educational provisions, such as mandatory attendance requirements and records, duties of supervisors and teachers, child abuse prevention, and administration of reading tests, etc. N.Y. Educ. Law Ch. 16, T.IV, Art. 65 (McKinney).

64. N.Y. Lab. Law § 152(2)(a) (McKinney 2004).

65. *See id.* § 152(2)(b) (McKinney 2004).

66. *See id.* § 153 (McKinney 2004).

67. *Id.*

68. *Id.* The full text of this provision states that:

> If the commission finds that a child performer's employer has violated any provision of this article or of a rule or regulation promulgated thereunder, the commissioner may by an order which shall describe particularly the nature of the violation, assess such employer a civil penalty of not more than one thousand dollars for the first violation, not more than two thousand dollars for a second violation and not more than three thousand dollars for a third or subsequent violation. Such penalty shall be paid to the commissioner and placed into the child performer's protection fund…and administered by the department. Monies accredited to the child performer's protection fund shall be utilized for the purpose of this article. The department shall promulgate rules and regulations for the administration of the child performer's protection fund.

These civil penalties, while not particularly large sums of money, help to hold employers accountable. A provision like this does not exist for the enforcement of laws regarding child models, which is yet another reason to include models under the provisions of Article 4-A of the New York Labor Law.

69. Serphin Maltese Archives, *supra* note 49.

70. *Id.* To create this provision for trust accounts, the Child Performer Education and Trust Act of 2003 amended Article 7 of the New York Estates, Powers and Trusts Law to include part 7, entitled "§ 7-7.1: Child Performer Trust Account."

71. While these provisions aid in maintaining financial transparency between employers and the child performers, they do not provide a solution for the so-called "Coogan Problem" as it is known in California, in which the parent of a child performer, by maintaining access to the child's funds until the child turns 18, squanders the child's money. *Coogan Law*, Sag-Aftra (2013), http://www.sagaftra.org/content/coogan-law.

72. N.Y. Est. Powers & Trusts Law § 7-7.1(2)(a) (McKinney 2004).

73. *Id.*

74. N.Y. Est. Powers & Trusts Law § 7-7.1(2)(b) (McKinney 2004).

75. *Id.* This last phrase of section 2(b) requiring the assignment of a trust company once the child's account surpasses $250,000 is especially important to avoid messy situations such as child actor Macaulay Culkin's, who sued his parents via a guardian ad litem for squandering a large part of his $17 million earned through his prosperous child-acting career. The suit also involved a dispute between Culkin's parents over who would control what remained of his fortune. Brentrup v. Culkin, 166 Misc. 2d 870, 635 N.Y.S. 2d 1016 (Sup. Ct. 1995) *rev'd sub nom.* P.B. v. C.C., A.D. 2d 294, 647 N.Y.S. 2d 732 (1996).

76. N.Y. Est. Powers & Trusts Law § 7-7.1(2)(c) (McKinney 2004).

77. Serphin R. Maltese Archives, *supra* note 49.

78. *Id.*

79. The only protection in the Act afforded to child models was the creation of the Child Performer Advisory Board to Prevent Eating Disorders under § 154 of Article 4-A of the N.Y. Labor Law, which applies to both child performers and models.

80. NY Lab. Ch. 31, Art. 4.

81. N.Y. Lab. Law §§ 130-132 (McKinney 2004).

82. N.Y. Lab. Law § 130(1) (McKinney 2004).

83. N.Y. Lab. Law § 130(2)(a) (McKinney 2004). Emphasis added. So the legislature is, for laws pertaining to the employment of minors as child performers, deferring to the aforementioned Article 4-A of the New York Labor Law and Section 35.01 of the Arts and Cultural Affairs Law, both discussed earlier in this article.

84. N.Y. Lab. Law § 130(2)(b) (McKinney 2004). Throughout Article 4, all provisions relating to child models defer to N.Y. Arts & Cult. Aff. Law § 35.05. Essentially the New York legislature did not intend for the New York Department of Labor to be regulating child models, and instead deferred that regulation to the Department of Arts and Cultural Affairs.

85. N.Y. Lab. Law §§ 131, 132 (McKinney 2004).

86. *Id.*

87. *See id.* § 142 (McKinney 2004).

88. *Id.* Emphasis added.

89. N.Y. Lab. Law § 142(4) (McKinney 2004). N.Y. Lab. Law § 143 (McKinney 2004), which applies to hours of work for minors 16 or 17 years of age, contains the same language as § 142(4) regarding the non-applicability of this section to child models.

90. N.Y. Lab. Law § 141 (McKinney 2004); *see also* N.Y. Lab. Law § 145 (McKinney).

91. N.Y. Lab. Law § 141 (McKinney 2004).

92. *Id*. This provision for treble damages for serious bodily injury or death would certainly come into play in the modeling industry, where eating disorders run rampant. However, due to the phrases in the aforementioned provisions disclaiming their applicability to child models, these civil penalties of § 141 do not apply to the child modeling industry.

93. N.Y. Lab. Law § 145 (McKinney). Once again, since the provisions of Article 4 do not apply to child models, the criminal penalties outlined here are inapplicable to the modeling industry.

94. *See id.* §§ 130-132 (McKinney 2004).

95. *See id.* §§ 131, 132,142 (McKinney 2004).

96. *See id.* § 142 (McKinney 2004).

97. *See id.* § 141 (McKinney 2004).

98. *See id.* § 145 (McKinney 2005).

99. *See* N.Y. Lab. Law §§ 130, 131, 132, 142 (McKinney 2004).

100. As mentioned earlier, all provisions of the aforementioned Article 4 that discuss child models defer to N.Y. Arts & Cult. Aff. Law § 35.05.

101. N.Y. Comp. Codes R. & Regs. tit. 8 § 190.2 (1962).

102. Odell, *supra* note 32.

103. *Id.*

104. *Id.*

105. *Id.*

106. N.Y. Arts & Cult. Aff. Law § 35.05(1)(a) (McKinney 2004).

107. N.Y. Arts & Cult. Aff. Law § 35.05(1)(b) (McKinney 2004). Emphasis added.

108. *See id.* § 35.05(3)(c) (McKinney 2004).

109. *See id.* § 35.05(6)(a) (McKinney 2004). Emphasis added.

110. *See id.* § 35.05(7) (McKinney 2004). This, according to Ziff, includes breaks for rest and meals. Ziff, *supra* note 37.

111. *See id.* § 35.05(6)(d) (McKinney 2004).

112. N.Y. Arts & Cult. Aff. Law § 35.05(9) (McKinney 2004).

113. *Id.*

114. *See id.* § 35.05(8)(a) (McKinney 2004). This is essentially the Education Department's statement that it does not regulate child "models" who are classified under § 151 of the labor law, which as examined above applies to child performers.

115. N.Y. Comp. Codes R. & Regs. tit. 8 § 190.2 (1962).

116. *See id.* § 190.2(a) (1962).

117. *See id.* § 190.2(c) (1962).

118. *See id.* § 190.2(c)(1) (1962).

119. *See id.* 190.2(c)(2)(i) (1962).

120. *See id.* § 190.2(c)(2)(iii) (1962).

121. *See id.* § 190.2(c)(3)(i) (1962).

122. "Not in session" here means extended breaks such as summer, winter or spring vacations, not simply weekends.

123. N.Y. Comp. Codes R. & Regs. tit. 8 § 190.2(c)(3)(ii) (1962).

124. *See id.* § 190.2 (c)(3)(iii) (1962).

125. *See id.* § 190.2 (c)(4)(i) (1962).

126. *See id.* § 190.2 (c)(4)(ii) (1962).

127. *See id.* § 190.2 (c)(4)(iii) (1962).

128. *See id.* § 190.2(d) (1962).

129. N.Y. Comp. Codes R. & Regs. tit. 8 § 190.2(g) (1962).

130. N.Y. Arts & Cult. Aff. Law § 35.05(9) (McKinney 2004).

131. Ziff, *supra* note 37.

132. Odell, *supra* note 32.

133. *Id.*

134. Phelan, *supra* note 38.

135. As of January of 2013, "there remains no policy of informed consent for jobs involving nudity." Sara Ziff, *Regardless of Age, It's About Rights* (NYT.com, September 14, 2012). Additionally, there remains no regulation of whether a model even has a say over whether or not a photographer can Photoshop a picture of child model's face onto a nude body. Odell, *supra* note 32.

136. *Shields*, 58 N.Y.2d at 346.

137. Odell, *supra* note 32.

138. *Id.*

139. Phelan, *supra* note 38.

140. *Id.*

141. *Id.*

142. Ziff, *supra* note 37.

143. *Id.*

144. Odell, *supra* note 32.

145. An example of this is discussed *infra* Part II-D, in which a 17-year-old model spoke out against the Marc Jacobs company for making her work until 4:30 in the morning, despite N.Y. Comp. Codes R. & Regs. tit. 8 § 190.2(c)(4)(iii) (1962), which states that no female minor 16 or 17 years of age shall be required to work past 10 p.m.

146. However as discussed *supra* part I-C, the lack of enforcement mechanisms of the existing New York laws regarding working hours of child models dilutes the incentive for employers to adhere to them.

147. Nicole Rowlands, *A Not-So-Pretty Look at Child Modeling*, Lasisblog.com (Oct. 23, 2012), *available at* http://www.lasisblog.com/2012/10/23/a-not-so-pretty-look-at-child-modeling/.

148. A trailer for the film can be viewed here: http://www.youtube.com/watch?v=XbALBvRek1k.

149. Odell, *supra* note 32.

150. Rowlands, *supra* note 147.

151. *Id.*

152. *Id.*

153. *Id.*

154. Virginia Sole-Smith, *The Prettiest (Exploited, Underage) Workers in the World*, Slate (March 19, 2012), *available at* http://www.slate.com/blogs/xx_factor/2012/03/19/girl_model_the_prettiest_exploited_underage_workers_in_the_world.html.

155. *Id.*

156. Rowlands, *supra* note 147.

157. *See* note 148.

158. Rowlands, *supra* note 147.

159. Odell, *supra* note 32.

160. Phelan, *supra* note 38.

161. According to a survey done by the Model Alliance, 52% of models surveyed said that while under the age of 18, they were "never" or "rarely" accompanied by parents or guardians to casting sessions or modeling jobs. Phelan, *supra* note 38.

162. *Id.*

163. *Id.*

164. *Id.*

165. The list of these unions includes the Screen Actors Guild and American Federation of Television and Radio Artists (SAG-AFTRA) for film, television, and radio performers, the American Guild of Musical Artists (AGMA) for ballet dancers and opera singers, and Actor's Equity for Broadway performers and other stage actors. *Position Statements*, Child Performers Coalition (2010), http://www.childperformerscoalition.org/position-statements/.

166. Ziff, *supra* note 37. In fact, since models are classified in New York as independent contractors, it is legally impossible for them to unionize. Daniel Lehman, *Model Alliance Fights Abuse and Harassment of FashionModels*, Backstage.com (April 11, 2012), *available at* http://www.backstage.com/news/model-alliance-fights-abuse-and-harassment-of-fashion-models/.

167. Phelan, *supra* note 38.

168. *Id.*

169. *Id.*

170. *Id.*

171. *Id.*

172. National Institute on Drug Abuse, *Drug Facts: Cocaine*. Drugabuse.gov (March 2010), http://www.drugabuse.gov/publications/drugfacts/cocaine. While cocaine may decrease appetites, it also can lead to serious gastrointestinal complications and malnourishment, as well as cardiac arrest, sudden seizures, and death.

173. Phelan, *supra* note 38.

174. *Id.*

175. Again since models are classified as independent contractors rather than employers, it is impossible for them to unionize. Lehman, *supra* note 166.

176. *Id.*

177. N.Y. Lab. Law § 152 (McKinney 2004).

178. Ziff, *supra* note 37.

179. Kelli, *supra* note 54.

180. *Id.*

181. *Id.*

182. *Id.*

183. A publication that, again, was financed by Playboy. *Shields,* 58 N.Y.2d at 342.

184. Yardley, *supra* note 11.

185. *Id.*

186. *Id.*

187. *Id.*

188. Athavaley, *supra* note 6.

189. *Id.*

190. *Id.*

191. *Id.*

192. For a comical (and simultaneously depressing) example of these type of parents, see this short clip from the film *Bruno*, http://www.youtube.com/watch?v=1eePO_7pcw8, in which actor Sacha Baron Cohen goes undercover as a child modeling agent, where parents unblinkingly consent when asked for permission to photograph their infants in dangerous or disturbing situations (ex: Question: "Is your baby comfortable with dead or dying animals?" Answer: Yes!").

193. *Shields*, 58 N.Y.2d at 342; Athavaley, *supra* note 6.

194. N.Y. Est. Powers & Trusts Law § 7-7.1(2)(a) (McKinney 2004).

195. N.Y. Est. Powers & Trusts Law § 7-7.1 (McKinney 2004).

196. Abraham, *supra* note 35.

197. *Shields*, 58 N.Y.2d 338 at 346

198. Odell, *supra* note 32.

199. *Id.*

200. *Id.*

201. *See* Joe Edelman, *The Business of Modeling*, JoeEdelman.com, http://www.joeedelman.com/modeling-agencies/.

202. *Id.*

203. *See Modeling Scams—Photo Mills*, Auditions.free.com, http://www.auditionsfree.com/modeling-scams-photo-mills/.

204. Edelman, *supra* note 201.

205. The Funnyface agency in New York charges approximately $1,000 per child, for a number of services including photo sessions, composite cards, and individual photo prints, all before any placements or jobs are found for the aspiring models. Athavaley, *supra* note 6.

206. Odell, *supra* note 32.

207. As Sara Ziff told Amy Odell, a top model came to the Model Alliance because her agency was withholding $50,000 from her, and she was unaware of how to handle it. *Id.*

208. The video of this hidden camera modeling agency segment can be viewed on Anderson Cooper's website: '*Latest Teen Modeling Scams Exposed' with Kelly Cutrone / Plus, Susan Sarandon,* Andersoncooper.com (Sept. 5, 2012), *available at* http://www.andersoncooper.com/episodes/susan-sarandon-kelly-cutrone-latest-teen-modeling-scams-exposed/.

209. *Id.*

210. One parent, when asked whether her nine-year-old daughter would be comfortable wearing lingerie and swimsuits, affirmatively answered "yes," while her daughter sat next to her squirming uncomfortably and appearing on the verge of tears. Another parent, when asked whether her daughter would be willing to buzz off her long hair, bleach it platinum blonde, and paint a red stripe down the middle, answered "yes" without the slightest hesitation. *Id.*

211. *Id.*

212. *Id.*

213. Odell, *supra* note 32.

214. *Id.*

215. *Id.*

216. *Id.*

217. *Id.*

218. Dimitria Parisis, *The Marc Jacobs/Hailey Hasbrook Conundrum: Working for Trade; A New Vicious Cycle?*, Scallywag and Vagabond (March 7, 2012), http://scallywagandvagabond.com/2012/03/the-marc-jacobshailey-hasbrook-conundrum-working-for-trade-a-new-vicious-cycle/.

219. *Id.*

220. This is in violation of N.Y. Comp. Codes R. & Regs. tit. 8 § 190.2(c)(4)(iii) (1962), which states that no female minor 16 or 17 years of age shall be required to work past 10 p.m. However, as discussed in the section describing New York's existing legislation for child models, there are no enforcement mechanisms in place to see that these laws are adhered to, which seemingly acts as an invitation for employers to violate them without fear of consequences.

221. Parisis, *supra* note 218.

222. Odell, *supra* note 32. The jury is still out on whether Jacobs will pay his models.

223. *Id.*

224. Parisis, *supra* note 218.

225. *Id.*

226. Lehman, *supra* note 166.

227. Odell, *supra* note 32.

228. *Id.*

229. N.Y. Est. Powers & Trusts Law § 7-7.1 (McKinney 2004).

230. *The Global Cities Index 2010*, Foreignpolicy.com (2010), http://www.foreignpolicy.com/node/373401.

231. *Id.*

232. Cal. Code. Regs. tit. 8, § 11751(a) (1986).

233. *Id.*

234. Cal. Code. Regs. tit. 8, § 11755(a) (1986).

235. *Id.*

236. *See id.* § 11755.2 (1986).

237. *See id.* § 11755.3 (1986).

238. *Id.*

239. See the earlier discussion *supra* part II-A on the health and safety detriments faced by child models in New York .

240. Cal. Code. Regs. tit. 8, § 11755.3 (1986).

241. *Id.*

242. *Id.* If an employer wishes to challenge such removal, he or she may make an appeal to the Labor Commissioner.

243. Cal. Code. Regs. tit. 8, § 11751(b) (1986).

244. Discussed *supra* Part I-C.

245. Cal. Code. Regs. tit. 8, § 11758 (1986).

246. *See id.* § 11758.1 (1986).

247. Discussed *supra* Part I-A.

248. N.Y. Lab. Law § 153 (McKinney 2004).

249. *See id.* § 152 (McKinney 2004).

250. N.Y. Est. Powers & Trusts Law § 7-7.1(2)(a) (McKinney 2004).

251. See the discussion *supra* part II-A.

252. See the discussion *supra* part II-C.

253. See the discussion *supra* part II-B.

254. *Id.*

255. U.S. Bureau of Labor Statistics, *supra* note 33.

256. *Id.*

257. While larger design labels might have the manpower to successfully meet all of the requirements of both Article 4 of the New York Labor Law and the CPETA, smaller companies could possibly be burdened by adhering to the permit process required by N.Y. Lab. Law § 151, the age and working-hour limitations of N.Y. Lab. Law § 130, § 131, § 132, and § 142, and the higher financial standards mandated by the Education and Trust Act.

258. This includes the civil and criminal penalties in N.Y. Lab. Law § 153 and § 145, respectively, for employers who fail to adhere to the labor requirements.

259. N.Y. Arts & Cult. Aff. Law § 35.05.

260. N.Y. Lab. Law § 151 (McKinney 2004).

261. Odell, *supra* note 32.

262. See the analysis *supra* part III.

263. Cal. Code. Regs. tit. 8, § 11755.3 (1986).

264. Cal. Code. Regs. tit. 8, § 11758.1 (1986).

265. To see how this works for California, see *id.*

266. *Id.*

267. *See* the analysis *supra* Part II.

268. *See* the analysis *supra* Part IV.

269. Robbins, *supra* note 1.

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Redefining the Reel Residual Problem: An Analysis of DMCA § 4001 and an Alternative Approach to Union Residual Payments

By Marissa Crespo

Introduction

The growth in the independent film market over the last decade has changed the economic infrastructure of the movie industry in the United States. New distributional mediums—from DVD, video-on-demand, and online distribution to creative film content on mobile devices—have altered the way independent producers control their works and introduce them into the marketplace for a more globalized audience.[1] With the growth trend of U.S. independent films in international markets, an increased presence of such has also brought heightened pressures from U.S. labor guilds to pay residual payments to their members.[2] Despite independent filmmakers' attempts to pay residuals to comply with their collective bargaining agreement(s) with one or more unions, issues arise from their inability to pay these residuals for non-profitable films. To exacerbate the problem further, complex financing structures with foreign distributors and sub-distributors who implement creative accounting pitfalls leave independent producers with few dollars to pay residuals.[3]

In 1998, Congress sought to remedy the problem of unpaid residuals by implementing an Assumption of Contractual Obligations provision in the Digital Millennium Copyright Act (DMCA).[4] The purpose of the provision was to require distributors to assume a producer's obligations of paying residual payments for a license or assignment in the film.[5] While the statute created an enforceable tool for unions to use against signatory producers, its operating effect detrimentally impacted independent producers and failed to remedy the problem of getting distributors to assume the responsibility of residual payments.

I. Industry Operation

To understand better the current plight of the relationship among independent film producers, the entertainment labor unions/guilds and foreign film distributors, a general explanation of the significant agreements and financing landscape must be presented.[6] The primary guilds in the film industry are Directors Guild of America (DGA), Writers Guild of America (WGA) and Screen Actors Guild-American Federation of Television and Radio Artists (SAG-AFTRA).[7] These guilds are some of the most pervasive in the entertainment industry that require exclusivity and contractual obligations to utilize the services of their members.[8] As entertainment attorney Schulyer M. Moore articulately states:

> The guilds require exclusivity—the members of the guilds may work only for companies signing with the guilds ("guild signatories"), and guild signatories may only employ guildmembers. Film companies are thus forced to become guild signatories in order to engage guild members as talent, and talent are forced to become guild members to work for guild signatories.[9]

For independent producers, to hire union talent is a very serious economic and artistic choice that must be considered thoughtfully. Hiring guild talent drastically increases the cost of producing a film, as the collective bargaining agreements set the minimum pay scales, and require producers to pay pension and health contributions and residuals.[10]

Residuals are a form of contingent compensation. Guilds require production companies to pay them when the production companies receive any form of revenues for exploitation of the film in other markets outside of the initially agreed upon territories and medium (i.e., film to pay TV, DVD, and cable TV).[11] Residual calculations vary according to the different collective bargaining agreements of the DGA, WGA, and SAG-AFTRA, but they all base the calculations on the production company's gross revenues.[12] In other words, regardless of whether a producer makes a profit, the production company must still pay the residuals owed to performers.[13] For independent producers, residual payments are taken off the top and paid even before paying back investors, which demonstrates the entertainment guilds' power over the financial success of a film project.[14] Therefore, it is generally a producer's responsibility to make sure to properly budget for a film, including any union residuals that may be due if hiring union talent.

A. Signatory Documents: The Ties That Bind

For independent producers who seek to hire union talent for the production of their films, the signatory process involves much administrative paperwork and specific obligations in order to comply with the collective bargaining agreements. The specific terms depend upon the type of film created, its purpose, and the type of union agreement. For instance, if an independent production company wants to hire SAG-AFTRA union actors for a low-budget independent film, the producer must submit the following forms of documentation, among others: (1) a theatrical information sheet that specifically asks who has financed the film, (2) the chain of title of the film and any distribution agreements,[15] (3) a theatrical distribution checklist which specifically requires information of all the domestic distributors, foreign distributors and sales agents who have ownership rights in the film,[16] and (4) two executed copies of an Independent Producers of Motion Picture Adherence Letter, which specifically binds the producer to comply with the SAG-AFTRA Codified Basic Agreement, as well as requires the producer to obtain signed Distributor Assumption Agreements from all distributors associated with the film.[17]

In the SAG-AFTRA Distributor Assumption Agreement, it requires any distributor associated with the particular film "to make the additional compensation payments required thereby, if any, and the pension and health contributions required thereby, if any, with respect to the territories, media and term referred to above [in the agreement]…(all such payments are collectively hereinafter referred to as "Residuals").[18] In order for an independent producer to comply with the guild regulations, the producer must obtain executed distribution assumption agreements from every distributor that seeks to exploit the film. A producer who fails to secure the proper forms of documentation could be at risk of having his or her signatory application denied by the union,[19] or if signatory documents are accepted, the union may prohibit the union performers from performing in the film, place a lien on the film, or seek injunctive relief to stop the film from completion or distribution.[20] The dire risks involved for a producer failing to complete a film without securing such a document creates an added pressure for independent film producers to be astute in complying with guild guidelines when hiring union talent.

B. Film Distributors and Distribution Agreements: Collateral Damage

Independent producers are in the business of creating and exploiting films for profit. Thus, one of the most significant agreements independent producers execute is the distribution agreement.[21] Some of the most common distribution agreements are pre-sale agreements and international sales agent agreements.[22] A pre-sale agreement is a limited distribution agreement that an independent producer enters into with a foreign distributor for a specific country or multiple international territories.[23] In exchange for a license in the applicable territory, foreign distributors pay a minimum guarantee (also known as an advance) once the film is completed and delivered to the foreign distributor.[24] A pre-sale agreement with a foreign distributor is one of the most critical agreements for independent producers to secure financing for their films.[25] A foreign distributor's primary concern is the marketability of the film to sell and retain a profit.[26] Factors considered are generally the track record and reputation of the director; any named actors attached to the film, the genre of the film, and any festival awards the film may have received.[27] There is no exact science as to how distributors evaluate a film—therefore, independent producers are subject to the aesthetic tastes and marketing business plan of distributors to successfully distribute their films.[28]

An international sales agent agreement, on the other hand, is an agreement for the sales agent company to render its services to find foreign distributors for a producer's film and negotiate the terms of the distribution deal on behalf of the producer.[29] International sales agents represent the producer at major film markets, such as the Sundance Film Festival, Cannes, Toronto Film Market, MIPCOM, and the American Film Market, among others.[30] Although they generally do not acquire distribution rights in the film, foreign sales agents have considerable power negotiating with foreign distributors for producers in a distribution agreement and collect the money due for indie producers, given their knowledge and expertise of the foreign territories, as well as their knowledge of top distributors to potentially exploit the film.[31]

Given their special importance for film producers to gain exposure and potentially profit from their own films, both foreign distributors and international sales agents have great bargaining leverage to negotiate the terms of their respective agreements. Such bargaining leverage has resulted in the contentious battle and abuse of power over the issue of guild residual payments.[32] Desperate to have their films successfully distributed, independent producers are in less of a bargaining position to negotiate terms of a distribution deal even if distributors select their projects. Film finance attorney John W. Cones depicts the industry environment for the independent filmmaker in his book *The Feature Film Distribution Deal*:

> In the first place the basic economic law of supply and demand is working against the independent producers (i.e., there are too many films being produced each year). More films are being produced than there are available distributors who are willing to distribute and even though many of the films being produced arguably do not deserve to be released, there are still too few distributors that are both capable and willing to distribute the worthy films. Thus, even though the available distributors may be willing to negotiate on certain aspects of the distribution deal…distributors pretty much have the power to say "take it or leave it."[33]

Cones' description of the unequal bargaining leverage between producers and distributors demonstrates the information asymmetry and unequal bargaining power of the parties that make it more difficult for independent producers to negotiate for distributors to assume a producer's residual payment obligations to guilds. Desperate to have their films distributed, independent producers are more prone to forgo contracting for such provisions, even though it ultimately is to their own detriment. Refusing to pay guild residuals, foreign distributors shift the burden to independent producers, who are contractually bound to the unions to pay the residual payments.[34] Stuck with the high costs of residual payments they cannot afford, independent producers increasingly breach their union contracts. As a result, independent production companies fail to make residual payments, are taken to arbitration by the guilds, dissolve their production companies, and/or move their film projects overseas to avoid hiring union talent.[35]

II. DMCA § 4001: A Windfall Solution to the Residual Problem

After unions lobbied Congress over the issue of recouping residual payments from signatory producers, Congress enacted language within the DMCA, obligating transferees of motion pictures to assume the obligations under the applicable assumption agreements, regardless of whether the transferees sign the actual assumption agreements under the applicable union.[36] The language of the Act specifically states the following:

> In the case of a transfer of copyright ownership *under United States Law* in a motion picture…that is produced subject to 1 or more collective bargaining agreements negotiated under the laws of the United States…shall be deemed to incorporate the assumption agreements applicable to the copyright ownership being transferred that are required by the applicable collective bargaining agreement [emphasis added].[37]

The statute also requires that the transferee has either actual or constructive knowledge that a collective bargaining agreement is applicable to the motion picture so the transferee has notice of whether the particular motion picture contracted for will require the payment of residuals.[38] The statute allows for constructive notice through either publicly available information, such as a recordation of a document through the Copyright Office, publicly available information on the relevant union's website acknowledging whether the particular film is a signatory production, or "awareness of other facts and circumstances" that would give a transferee constructive notice.[39]

In spite of Congress' attempt to obligate distributors as transferees to pay residuals, its overall effectiveness was futile. In a 2001 General Accounting Office (GAO) report, Congress acknowledged that the legislation's impact on the film industry within those three years was small, yet its greatest impact was felt by independent producers, to their detriment.[40] In between the reported years of 1996 through 1998, Congress' study found 771 films that had neither paid residuals nor had distributors assume the obligations of residuals.[41] Of the 771 films, about 87% fell into the category of independent productions.[42] Although the report was limited to three years within its study, and to a small sample of union arbitration claims (as it generally takes 18 months to two years from a film's production to when residuals are owed), the report still concluded that the legislation's impact would perilously affect independent producers.[43]

Questions also arose as to the applicability of the DMCA provision against foreign distributors and international sales agents.[44] The plain language of the statute states that transfers of copyright ownership "under United States Laws" are bound to the collective bargaining assumption agreement obligations.[45] In the case of foreign distributors, although they receive a license transfer to distribute the film in specific territories, questions remained as to whether they were bound to United States law.[46] For international sales agents, because they generally do not receive an assignment of the film or a license, they are not bound to pay residuals under the DMCA provision.[47] Some international sales agents who have the authority to enter into agreements on behalf of independent producers, however, act more like licensees in these scenarios.[48]

Moreover, even though the 2001 GAO report on this issue was the only one conducted, the challenges facing the independent filmmakers persist.[49] For example, in 2007, independent production company 10th & Wolf, LLC filed a lawsuit in federal court under § 4001 against U.S. distributor ThinkFilm, LLC.[50] In its complaint, the independent producers argued that ThinkFilm flatly refused to negotiate inclusion of the assumption of obligations, as required under the DMCA.[51] The first and only case to address this issue in federal court, 10th & Wolf's complaint sought to have the federal judge address the question of whether it was illegal for distributors to contract out of assuming residuals obligations, as required by the DMCA.[52] The presiding judge never answered the legal question, however, as the case ultimately settled.[53] As the case dealt with the applicability of the DMCA provision against a U.S. distributor, it also left unanswered whether the DMCA would apply to foreign distributors as well.

With the problem continuously growing for independent producers, a greater solution must be presented. Congress' creation of § 4001 of the DMCA was an initial attempt to remedy the problem; however, the current language of the statute fails to address the core problem between independent producers and foreign distributors over residual payments. A modification to the statutory language addressing this problem could help alleviate nonpayment of residuals; yet additional solutions must also accompany a legislative amendment to the DMCA provision, which shall be explored further below.

III. Potential Solutions

Although the current legal issues and business relationships involved in the independent film market are seemingly tenuous and complex, there are both short- and long-term solutions to mitigate at least the current issues involved with the arm's-length relationships among the unions, independent producers and distributors over the issue of residual payments. For purposes of this article, the solutions offered will only address SAG-AFTRA as a union representative, even though they are suggested for the other major unions as well. The suggested solutions presented in this section are not meant to be exhaustive, and may even be ambitious in their attempt to restructure the infrastructure of the independent film market. The purpose of the offered solutions is meant to initiate a more thoughtful examination into the current business and legal issues.

A. Short-Term Solutions: Best Practices for Independent Producers

The most critical skill of independent producers to successfully complete even a *potentially profitable* film project is their ability to appropriately budget for a film. Despite the known secret in the independent film market world that most films do not make money and almost always go over budget, it is still paramount that producers constantly consider the cost of producing and distributing films.[54] As the budget plays the most critical role in the lifecycle of a film,[55] it is crucial that producers take training courses or continuing education courses on film budgeting and finance. Even though budgets vary drastically from film to film, there are still above- and below-the-line costs that are customarily viewed as a percentage of the budget that producers should factor into their initial budget projections.[56] Independent filmmakers have at their disposal specific budgeting software systems like *Movie Magic Budgeting and Scheduling* and Media Service's *Showbiz Budgeting and Scheduling*.[57] To assist producers in the creation of an estimated budget, website services such as *Entertainment Partners* have a service called *Paymaster* to include all current contracts and labor rates in the entertainment industry for producers to utilize in exchange for a nominal fee.[58] Another great resource is *The Industry Labor Guide*, which also contains pertinent information on rates, rules and practices of all union agreements.[59] Utilizing these services would create a more successful *ex ante* approach to the residuals problem by shifting producers' paradigms in crafting informed decisions in hiring union talent and fully understanding the costs associated in such hiring decisions. Incorporating these estimates into the initial budget would also distinguish independent filmmakers in business affairs to at least prevent or mitigate any reputational harm.[60]

Another short-term solution to the problem of an independent producer having to pay for residuals is to comply with its contractual obligation as a signatory producer and obtain distribution assumption agreements from each and every distributor with which the production company contracts the specific unionized film. The producer should also negotiate a provision in its distribution agreements that the distributor shall be bound to the DMCA provision. Current boilerplate provisions in sample distribution agreements fail to include any mention of the DMCA provision that would enforce distributors' contractual liabilities is to pay residuals under U.S. Copyright laws. Even the standard terms and conditions in the Independent Film & Television Alliance's (IFTA) sample international distribution licensing agreement fail to make any mention of the DMCA provision to protect some of its production company members against distributors, despite the association's mention that California law shall govern contractual interpretation under IFTA's own arbitration proceedings (it may be because the association wants to refrain from any political dissonance among its members).[61] Independent producers should skillfully negotiate arbitration and choice of law clauses, and try to include language in their contracts that foreign distributors shall be subject to U.S. copyright laws to ensure that they are contractually bound to the DMCA provision.[62]

This short-term solution, however, is wrought with a few complications and assumptions that must be acknowledged. Independent producers must first be made aware of the DMCA provision as a potential legal argument against distributors. There is no empirical study evaluating whether independent producers are aware of the legislative provision, but it is very likely that most are not aware of the copyright provision that could protect them, as only one producer known to date has made an attempt to use this argument in federal court since the law was codified in 1998.[63]

Producers should also attempt to negotiate each of these contract provisions into their international sales agent agreements. To support their position, they should specifically include mention of the DMCA provision into their contracts, binding such parties to the payment obligations. Moreover, producers should pay particular attention to the arbitration clause that is generally found in their agreements and research which arbitration body and state law shall govern under such agreements. As courts and arbitrators typically assume the intent and sophistication of the parties designing the contracts, it is in the best interest of independent producers to take great precaution and spend some time thinking about the "boilerplate provisions" of the international sales agent agreements and distribution agreements before executing said contracts.

Even though questions arise as to whether the DMCA provision actually applies to sales agents in particular, given the fiduciary duty sales agents adopt when representing producers' interests and negotiating distribution agreements for independent filmmakers, the DMCA provision should bind them. Sales agents have stronger negotiating power and leverage within the industry to secure such a provision in the contracts, and create more of a viable option to transfer the risk allocation of the payment of residuals, since sales agents have prominent business contacts in the industry and knowledge about residual payment obligations to allocate the risk management to distributors. Producers should enforce this aspect of the fiduciary relationship with sales agents to gain a better chance of transferring the residuals payment obligation to distributors in business practice. In order for independent filmmakers to have a chance in securing and enforcing such provisions in their sales agreements and distribution agreements, however, a greater solution involving IFTA and SAG-AFTRA may need to be formulated to enforce the residuals payment obligations within these contracts.

B. Long-Term Solutions: Best Practices and Collaborative Agreement Model for IFTA and SAG-AFTRA

To enforce the legal remedies of independent producers while securing residual payments to SAG-AFTRA performers, a collective bargaining agreement must be formulated between SAG-AFTRA and IFTA to appropriately address the interrelationship between the interests of independent filmmakers and the union. Currently, SAG-AFTRA collective bargaining agreements, including the SAG Indie and Low-Budget Agreements, are negotiated between the union and the Alliance of Motion Pictures and Television Producers (AMPTP).[64] Although AMPTP states that it represents "certain independent producers," the organization primarily represents movie and television studio producers, broadcast and cable network production companies.[65] As SAG-AFTRA continues to increase its pressure in enforcing the residual payment obligations on independent producers and their production companies,[66] a collective bargaining agreement between the union and IFTA must be negotiated.

Claiming itself as "The Voice for Independents" with its mission "to foster broad-based growth of the industry" worldwide, IFTA is the appropriate trade association to negotiate a collective bargaining agreement on behalf of independent filmmakers.[67] Despite the differing political interests of both organizations and their constituents, residual payment obligations is one issue in which producers and union members share similar interests. For the union, its interest is in securing the payment of residuals for its performers through signatory agreements and distribution agreements (regardless of whether producers or distributors pay them in practice); for producers, however, their interest is in making sure that distributors pay these residuals as opposed to absorbing the costs themselves. Both organizations working together could increase the probability of securing such payments from foreign distributors and establish an industry-wide norm through its collective bargaining agreement. Given IFTA's international presence in at least 23 countries, as well as its relationship with foreign distribution companies and international sales agents, such information and relationships could benefit SAG-AFTRA.[68] Though many points would need to be negotiated within the collective bargaining agreement, some potential resolutions to discuss regarding residual payments could include the following: for producers, a recalculation of residual payment percentages that accommodate independent film budgets (rather than the same calculations for studio budgets). This should be based upon the type of agreement an independent producer uses to become a signatory producer with the union for his or her particular project, as well as the estimated budget for the film. In exchange, the union should continue to require independent producers to secure distribution assumption agreements from distributors and sales agents. The union should also negotiate to include in the collective bargaining agreement that IFTA should be responsible for enforcing penalties against member production companies, distributors and sales agents who fail to execute agreements and make timely payments. Such penalties could include notices and information posted online, similar to the operation of the Better Business Bureau, reporting production companies, sales agents and distributors.[69] Veteran entertainment attorney Mark Litwak has created a similar concept regarding reports on distributors. In his model, he creates reports on whether distributors timely filed reports and payments. IFTA and SAG-AFTRA should pool their funding for research purposes and adopt a more expansive reporting model than solely distributor-only based; they should include information on sales agents and production companies as well.

In addition to reportings of production companies, sales agents and distributors failing to make timely residual payments, IFTA should also ban these companies from participating in IFTA's American Film Market festival for at least a year. Since all parties are interested in marketing and exploiting the films, banning them from an industry-wide annual event and reporting their conduct could create a potential harm to their businesses, as well as reputations. From the union's perspective, this could create the incentive for all of these parties involved to make timely payments of residuals or settle rather than arbitrate these claims. Granted, these suggestions may create contentious negotiations, as such solutions could have a detrimental effect on the business IFTA itself generates in its creation of the American Film Market, as well as with its own constituents; yet these are provisions proposed to generate discussion of potential solutions to encourage international sales agents and/or distributors to execute assumption agreements to pay residuals.

IFTA and SAG-AFTRA should also consider collaborating in the long term to create a collective management agency that specifically collects residuals. While SAG-AFTRA has an established residuals department to handle the calculations and collection reports, IFTA has a collections department, though it only handles foreign royalties and levies.[70] Pooling these current systems would prove beneficial in tracking residual payments that are due to performers. An exemplary model is American Federation of Musicians' (AFM) Film Musicians Secondary Markets Fund (the Fund).[71] Created in 1972, the Fund originated out of AFM's collective bargaining agreement with AMPTP.[72] The Fund acts as an agent for producers in collecting residuals payments that are owed to member musicians whose music is used in motion pictures and television.[73] Using this model, IFTA and SAG-AFTRA could negotiate their own collective bargaining agreements for independent producers, negotiate provisions detailing how the fund would be administered, and merge a uniform database system for both organizations to access and report residual payments that are owed to performers.

Conclusion

These proposed solutions and best practices are only recommendations to alleviate the problem of unpaid residual payments. Though some of the solutions may be broad-stroked, theoretical in their approach, and thus, difficult to implement in practice (i.e., political considerations, current business practices, and lack of resources), their purpose is only to initiate negotiations and further collaboration among organized parties for a more functional approach to the independent film community.

Endnotes

1. *See* Bryan Ross Bieber, *Analysis of the Independent Film Industry,* BRB Productions (Sep. 23, 2009), http://www.bryanbieber.com/2009/09/analysis-of-the-independent-film-industry/. The definition of "Independent Film" varies and oftentimes includes major studios that create subsidiary independent production companies. *See id.*
2. Residual payments are for the exploitation of a performer's work in a different medium than had been originally contracted. *See Residuals, FAQ,* SAG-AFTRA, http://www.sagaftra.org/content/residuals-faq. For information on union pressures toward independent producers over residuals, see Sharon Stewart, *Guilds Eye Indies' Overseas Residuals,* Daily Variety (July 26, 2001), www.variety.com/article/VR1117850271.html?categoryid=1013&cs=1.
3. For a more thorough treatment of creative accounting pitfalls facing independent producers, *see* Mark Litwak, Risky Business: Financing & Distributing Independent Films 230-249 (2004).
4. Digital Millennium Copyright Act, Pub. L. 105-304 § 4001(a)(1) (1998).
5. *Id.*
6. Distributors can range from domestic independent film distributors and subsidiary companies. For purposes of this article, the distributors referenced are referring to foreign distribution companies.
7. Howard Siegel, Esq. Entertainment Law 253 (3rd Ed.) 2004. On March 30, 2012, the two legacy guilds, Screen Actors Guild and American Federation of Television and Radio Artists, merged into one union. *See* Jonathan Handel, *SAG/AFTRA Merger Passes: It's Now SAG-AFTRA,* The Hollywood Reporter (Mar. 30, 2012, 1:43 PM PDT), http://www.hollywoodreporter.com/news/sag-aftra-merger-passes-sag-306398. For more information on the SAG-AFTRA merger, *see About Us,* SAG-AFTRA, http://www.sagaftra.org/content/about-us. Although there are several guilds that deal with residuals, SAG-AFTRA will only be used as a case study model for purposes of this article.
8. Siegel, *supra* note 7 at 253.
9. Schuyler M. Moore, *The Film Industry in Entertainment Law* 253 (Howard Siegel 3d. Ed. 2004).
10. *Id.* at 254.
11. *Id.* at 254; *see also Residuals, FAQ,* SAG-AFTRA, http://www.sagaftra.org/content/residuals-faq:

    Residuals are compensation paid to performers for use of a theatrical motion picture or television program beyond the use covered by initial compensation. For TV work, residuals begin once a show starts re-airing or is released to video/DVD, pay television, broadcast TV, basic cable, or new media. For film work, residuals begin once the movie appears on video/DVD, basic cable and free or pay television, or new media.
12. Moore, *supra* note 9 at 254; *see also* Jeremy Jusso, Getting the Money: A Step-By-Step Guide for Writing Business Plans for Film 172 (2009).
13. Moore, *supra* note 9 at 254.
14. Jusso, *supra* note 12 at 96.
15. Theatrical Information Sheet 4.24, SAG-AFTRA, http://www.sagaftra.org/files/sag/information_sheet_theatrical_4_24.pdf.
16. Theatrical Distribution Checklist 4.14, SAG-AFTRA, http://www.sagaftra.org/files/sag/distribution_checklist_theatrical_4_14.pdf.
17. 2011 Screen Actors Guild-American Federation of Television and Radio Artists Agreement for Independent Producers of Theatrical Motion Pictures 2.1, http://www.sagaftra.org/files/sag/adherence_letter_theatrical_2011_2_1.pdf.
18. Distributor's Assumption Agreement Theatrical, SAG-AFTRA, http://www.sagaftra.org/files/sag/distributors_assumption_agreement_theatrical_3_7.pdf.
19. *See* Moore, *supra* note 9 at 255 ("SAG often refuses to grant clearance to permit its members to work on a film until either the distributors of the film have agreed to assume residuals or the producer deposits a large deposit to secure the payment of residuals, which effectively increases the budget of the film.").
20. *See* 2005 SAG Basic Agreement § 6, SAG-AFTRA, *available at* http://www.sagaftra.org/files/sag/2005TheatricalAgreement.pdf; *see also* Distributor's Assumption Agreement Theatrical, SAG-AFTRA, http://www.sagaftra.org/files/sag/distributors_assumption_agreement_theatrical_3_7.pdf.
21. *See generally* John W. Cones, The Feature Film Distribution Deal: A Critical Analysis of the Single Most Important Film Industry Agreement (1997).
22. Other types of distribution agreements include the following: PFD agreements, negative pick-up agreements output agreements. *See* Schulyer M. Moore, The Biz: The Basic Business, Legal and Financial Aspects of the Film Industry 93- 95 (4th ed. 2011). For the purposes of this article, only pre-sale and international sales agent agreements will be discussed.
23. *Id.* at 94.
24. *Id.*
25. *See* HRBEK Law, LLC, *What is a Pre-Sale Agreement,* http://www.hrbeklaw.com/lawyer-attorney-1324339.html.
26. Mark Litwak, Risky Business: Financing & Distributing Independent Films 129 (2004).
27. *See id.*
28. *See id; see also* Cones, *supra* note 21 at 39.
29. *See* Gunnar Erickson, Harris Tulchin & Mark Halloran, The Independent Film Producer's Survival Guide 114 (3d. ed. 2010).
30. *See id.* at 113.
31. *Id.* In some circumstances, foreign sales agents also act as distributors as well when they make an equity investment in the film. *Id.*
32. *Id.* at 118; *see also* Robert Siegel, *The Digital Millennium Copyright Act: Keeping Distributors on the Hook,* IFP Resources (Apr. 6, 2011), http://www.ifp.org/resources/the-digital-millennium-copyright-act-keeping-distributors-on-the-residuals-hook/.
33. Cones, *supra* note 21 at 39.

34. *See* Sharon Stewart, *Guilds Eye Indies' overseas residuals*, Daily Variety (July 26, 2001), http://variety.com/2001/biz/news/guilds-eye-indies-overseas-residuals-1117850271/; *see also* Robert Siegel, *The Digital Millennium Copyright Act: Keeping Distributors on the Hook,* IFP Resources (Apr. 6, 2011), http://www.ifp.org/resources/the-digital-millennium-copyright-act-keeping-distributors-on-the-residuals-hook/ (describing various strategies distributors employ for non-payment of residuals).
35. *See e.g.* Greg S. Bernstein, *Indie Producer: Go North, Or East, Or West, Or South!,* The Business of Film (May 1999), http://www.thefilmlaw.com/Articles/1999B.html.
36. Digital Millennium Copyright Act, Pub. L. 105-304 § 4001(a)(1) (1998).
37. *Id.*
38. *Id.* at § 4001(a)(1)(A); *see also id.* at § 4001(a)(2).
39. Digital Millennium Copyright Act, 28 U.S.C. at § 4001(a)(2)(B)(i) and (C); *see e.g.* SAG-AFTRA, Search Signatory Database, http://www.sagaftra.org/search-signatory-database.
40. *See* United States General Accounting Office, "Legislation Affecting Payments for Reuse Likely to Have Small Impact on Industry" 5 (Jan. 2001), *available at* http://www.gao.gov/assets/240/230027.pdf. [hereinafter GAO report].
41. *Id.* at 2.
42. *Id.*
43. *Id.* at 6.
44. *See id.* at 6; *see also* Moore, The Biz, *supra* note 22 at 64 (stating that because the Copyright Act does not apply outside the United States, the DMCA provision does not apply to foreign distributors).
45. Digital Millennium Copyright Act, Pub. L. 105-304 § 4001(a)(1).
46. *See* GAO Report, *available at* http://www.gao.gov/assets/240/230027.pdf.
47. *See* Erickson, Tulchin & Halloran, *supra* note 29 at 115.
48. Schulyer M. Moore, The Biz: The Basic Business, Legal and Financial Aspects of the Film Industry 95 (4th ed. 2011).
49. *See* Sharon Stewart, *Guilds Eye Indies' overseas residuals,* Daily Variety (July 26, 2001), http://variety.com/2001/biz/news/guilds-eye-indies-overseas-residuals-1117850271/; *see also* Robert Siegel, *The Digital Millennium Copyright Act: Keeping Distributors on the Hook,* IFP Resources (Apr. 6, 2011), http://www.ifp.org/resources/the-digital-millennium-copyright-act-keeping-distributors-on-the-residuals-hook/.
50. *See* Doll, Amir & Eley, *Film Producer Goes after Residuals under Digital Copyright Act*, The Daily Journal (July 13, 2007), http://www.dollamir.com/news-024.
51. *See* Larry Iser & Chad Fitzgerald, *Can the Digital Millennium Copyright Act Save the Day for Independent Filmmakers (and for the Rest of Hollywood)? 10th & Wolf v. ThinkFilm and the Legal Obligation to Pay Residuals,* Intellectual Property Today (Nov. 2007), http://www.iptoday.com/articles/2007-11-iser.asp.
52. *Id.*
53. *See* 10th & Wolf, LLC v. ThinkFilm, LLC, et al., Docket No. 2:07-cv-05131 (C.D. Cal. Aug 07, 2007) Request No. 23, *available at* http://www.bloomberglaw.com/document/2048003898717954.
54. *See* Schulyer M. Moore, The Biz: The Basic Business, Legal, and Financial Aspects of the Film Industry, 11 (3d. Ed. 2007).
55. *Id.* at 49.
56. *Id.* at 51.
57. "Rate Books," http://www.lineproducing.com/index.php/tools-ratebooks.
58. "Products: Paymaster," Entertainment Partners, http://www.entertainmentpartners.com/Content/Products/Paymaster.aspx; *see also* "Rate Books," http://www.lineproducing.com/index.php/tools-ratebooks. There are also specific companies that specialize in the handling of residuals payments for independent film producers as well. *See* "Residuals and Talent Payments," Entertainment Partners, https://www.entertainmentpartners.com/residuals/.
59. Deke Simon, Film & Video Budgets 453 (5th ed. 2010).
60. Schulyer M. Moore, *Solving the Fight Over Union Residuals,* 23 Ent. L. and Finance (vol. 6)(2007), *available at* http://www.stroock.com/SiteFiles/Pub548.pdf (proposing that producers tie residuals to the budget to successfully pay residuals and utilize standard forms of financing agreements).
61. IFTA International Standard Terms, Independent Film & Television Alliance, http://www.ifta-online.org/mila-5th-edition; *see* "Applicable Law," Independent Film & Television Alliance, http://www.ifta-online.org/rules-international-arbitration#Applicable_Law.
62. *See Industry Custom and Practice: The Important of Arbitration Clauses in International Entertainment Contracts,* Coudert Brothers, LLP (Mar. 26, 2008), http://corporate.findlaw.com/business-operations/industry-custom-amp-practice-the-important-of-arbitration.html (discussing the importance of arbitration clauses to consider industry custom and practice in differing legal systems); *see also* Brandon A. Blake, *International Film Distribution: Striking a Deal in the Global Market,* Blake & Wang P.A., http://www.blakewang.com/international_lawyer.htm (proposing draft provisions that resolve conflict of law issues in international film distribution agreements).
63. *See* Doll, Amir & Eley, *Film Producer Goes after Residuals under Digital Copyright Act,* The Daily Journal (July 13, 2007), http://www.dollamir.com/news-024.
64. *See* Moore, The Biz, *supra* note 22 at 63 ("The guild agreements are negotiated between the studios and the guilds."); *see also* Alliance of Motion Pictures and Television Producers, "Welcome," http://www.amptp.org/ ("Since 1982, The Alliance of Motion Picture and Television Producers (AMPTP) has been the trade association responsible for negotiating virtually all the industry-wide guild and union contracts, including…American Federation of Television and Radio Artists (AFTRA) [and] Screen Actors Guild (SAG)…").
65. The Alliance of Motion Pictures and Television Producers, "Welcome," http://www.amptp.org/; *see also* Moore, *supra* note 22 at 63 ("The guild agreements are negotiated between the studios *and no one at the table is particularly thinking about how the agreements apply to independent film companies*" [emphasis added]).
66. Moore, *supra* note 22 at 63.
67. Independent Film & Television Alliance, "Home," http://www.ifta-online.org/.
68. *See* Independent Film & Television Alliance, "About IFTA," http://www.ifta-online.org/about-ifta; *see also* Independent Film & Television Alliance, "Member Directory," http://www.ifta-online.org/member-directory (listing distribution companies, production companies, and international sales agents).
69. *See e.g.* Mark Litwak, *Entertainment Law Resources,* Mark Litwak, http://www.marklitwak.com/resources/results.php (providing an evaluation of distribution companies).
70. *See* SAG-AFTRA, Department Contacts, http://www.sagaftra.org/department-contacts; *see* Independent Film & Television Alliance, Collections, http://www.ifta-online.org/collections.
71. Film Musicians Secondary Markets Fund, About Us, http://www.fmsmf.org/aboutus/fundstatement.html.
72. *Id.*
73. *Id.*

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Digital Music Thrift Stores Violate Copyright Law

By Jessica Jones Ross

Like most female, teenaged to 20-something Americans, this author purchased the entire Twilight series the second I heard "vampire love story." After several (embarrassingly) cannot-put-them-down days, I finished them. As the Twilight series is not exactly Pulitzer Prize winning prose, they then sat in a corner of my dorm room gathering dust. When I moved to an apartment, I sold them to make extra space. However, according to the U.S. District Court for the Southern District of New York, if I had purchased an audio file of the Twilight books being read to me by Robert Pattinson himself, I would not have been able to sell the collection so easily.

In *Capitol Records, LLC v. ReDigi Inc.*, a case that was partially decided at the end of March, District Court Judge Richard Sullivan held that the multi-million dollar record company copyright holder's reproductive and distribution rights were violated by a small start-up that facilitated the sale of used digital music.[1] The court's analysis revolved around the definition of "material object" and the seemingly nonexistent difference between transferring a protected work digitally versus physically. The court also struck down defendant ReDigi Inc.'s (RiDigi) affirmative defenses of fair use and first sale, ruling that the first sale doctrine only applied to *physical* works.

Capitol alleged that as the copyright holder of several songs offered for sale by ReDigi, its exclusive rights to reproduction and distribution were infringed. ReDigi touts itself as "the world's first pre-owned digital marketplace."[2] Essentially, ReDigi acted as a broker for website-goers wishing to buy and sell previously purchased MP3s by facilitating the resale transaction in exchange for a small commission.

If users have songs on their computers they wish to sell, they can sign up for ReDigi and download the ReDigi Marketplace app. This app installs software on the users' computers that formulates a list of songs from their iTunes libraries that are eligible for resale. Users have the option to use ReDigi's Cloud Locker to store songs, which can later be replaced on their devices, or to make the songs available for sale to another ReDigi user. Once a user selects songs to be sold, those songs are transferred "digital bit by digital bit" (i.e., not as a whole) onto ReDigi's Cloud Locker.[3] Once a song is inventoried for sale, ReDigi's software ensures that the song is completely deleted from the seller's machine. If ReDigi software finds that a user has a copy of a song elsewhere on his or her machine, the user is prompted to delete it. If the rogue copy is not deleted, the user's account is suspended or terminated. A song inventoried for sale remains in the Cloud Locker until another ReDigi user purchases it. Once purchased, the song is again transferred "digital bit by digital bit"[4] from the Cloud Locker to the buyer's machine. The seller then receives 20% of the sale price, the artist/copyright holder receives 20% of the sale price as deposited into an escrow account, and ReDigi receives the remaining 60% of the sale price.[5]

According to the court, this operating system violates the copyright holder's exclusive rights of reproduction and distribution by taking an audio file from one system, transferring it to the ReDigi Cloud Locker, and allowing another user to download the file from the cloud. The court focused heavily on precedent involving peer-to-peer file sharing systems and on the impact that ruling for ReDigi would have had. ReDigi argued that because only one file is in existence at all times, therefore unlawful reproduction could not have occurred. ReDigi conceded that audio files were distributed, but argued that the distribution was protected by the first sale doctrine. It held that a decision in favor of ReDigi would have required an amendment to the Copyright Act itself, and would represent a "legislative prerogative that courts are unauthorized and ill suited to attempt."[6]

The decision garnered a wide array of reactions from media outlets, prompting headlines such as "ReDigi Loses: You Can't Resell Your MP3s (Unless You Sell Your Whole Hard Drive)" and "The Double Standard in the Room: ReDigi and the (Now Illegal) Resale of MP3s."[7] Proponents of the decision—mainly large record companies that stand to lose millions of dollars in profit if resale of digital music were allowed—said that allowing digital works to be resold in a virtual music thrift store would cripple the primary market for music, namely iTunes and record sales. Opponents argued that there is a vast amount of value in secondary markets and that the ruling barred consumers from exercising the rights they have by being the lawful owner of a music track through its purchase.

In an interview with *Time Magazine*, the CEO of ReDigi, John Ossenmacher, said that the ruling has brought ReDigi a "deluge" of business and an outpouring of support from consumers.[8] ReDigi remains in business on its website, and now runs a second version of software which is not the subject of this ruling.[9] "I guess any ruling against [ReDigi] is a ruling against consumers," Ossenmacher said when asked about the ramifications of the decision, "because after all we're just a marketplace and we invest a whole lot of time, effort, and money to protect consumers' right to resell."[10] Despite the fact that ReDigi is still up and running, the future of consumers' rights with respect to goods legally purchased in the digital market is extremely uncertain.

In its opinion, the court fails to adequately address the obvious analogy of reselling used books or records. Selling a used book and selling a used MP3 both use secondary markets to dispose of otherwise unwanted goods. Both actions result in one product changing hands. Whether the goods are digital should not make such a crucial difference. The ReDigi court, however, tells us otherwise.

This article intends to explain the reasoning set forth in the District Court's opinion and to embark upon a discussion regarding the future of the secondary marketplace of digital works. The first section focuses on the exclusive right of reproduction, as defined by the Southern District of New York, and provides a discussion of notable weaknesses in that definition. The second section focuses on the first sale defense as asserted by ReDigi. The third section discusses the potential meaning of this ruling for the future of digital markets, copyright law, artists, and consumers.

Lawful Versus Unlawful Reproduction—What Is a Material Object Anyway?

In order to state a meritorious claim for copyright infringement, Capitol had to show that it was the rightful holder of the copyrights at issue and that ReDigi violated one or more of the exclusive rights it held as the copyright owner.[11] A copyright holder enjoys certain exclusive rights when it owns the copyright to a protectable work. Title 17 of the United States Code codifies these rights. A copyright owner has the exclusive right to *reproduce* the copyrighted work, to *distribute* the work by sale or transfer of ownership, and to *perform* and *display* certain works.[12] Capitol, the owner of several songs marketed and sold on ReDigi's website, alleged that ReDigi infringed its right to reproduce and distribute the copyrighted phonorecords.

According to the Court, and evidently based on the "plain text of the Copyright Act," "reproduction occurs when a copyrighted object is fixed in a new material object."[13] An electronic file has qualified under the Copyright Act as a material object for some time. Additionally, courts have long held that the definition of a material object is not limited to an "object with a certain heft."[14] As there is no doubt ReDigi deals in material objects, our quandary revolves around whether a *new* material object is created when a user allows ReDigi to transfer an audio file to its Cloud Locker and make it available for sale. If ReDigi's services do not in fact produce a new material object, reproduction cannot have occurred and the Court's ruling is erroneous.

It is well settled that the "duplication of digital music files over the Internet infringes a copyright owner's exclusive right to reproduce."[15] Herein lies the issue: ReDigi does not duplicate copyrighted works. The novel issue presented by ReDigi's services is whether reproduction rights are violated when duplication does not explicitly occur. Unlike the previously litigated cases involving file sharing websites, in which duplicates are created, two identical audio files *are not* created when using ReDigi's services. The file that goes into and out of a ReDigi transaction is the same file. Two identical files never exist throughout the process. Reproduction, reasoned the court, occurred when the file moved from one user's computer to another location. It held that a file cannot be transferred without becoming "new," and therefore must be a reproduction. The court split hairs in favor of Capitol by adding a new synonym to the word duplication: transfer.

Indeed, the court determined that ReDigi's services do in fact create a new material object based on the "law of physics," and that "it is simply impossible that the same "material object" can be transferred over the Internet."[16] Even though the tune, quality, beat, and lyrics are the same from one end of a ReDigi transaction to the other, the court felt that the same good did not result—just a very, very convincing reproduction. It is, however, difficult to comprehend how an encoded sequence on one computer, that is transferred to another computer with the same resulting product, creates something new under the law. It is additionally difficult to determine why the laws of physics ought to apply to the laws of copyright at all.

In *London-Sire Records v. Doe I*,[17] the defendant attempted to convince the court (in order to avoid infringement) that electronic files were not material objects. The court quashed this argument, stating that the defendant "relie[d] on an overly literal definition of 'material object,' and one that ignores the phrase's purposes in copyright statutes."[18] From this, it is clear that the proper formulation of a legal definition ought to take into account the overall phrase's purpose. Taking that tact here, in concluding that ReDigi created a new material object, the court relied on an overly literal definition of the word "new." The protected material object disembarks in a different location, this is true, but it has not been altered or reborn in such a way as to claim it is a new material object under the purposes of the Copyright Act. By ruling that transferal of a file from one computer, to a cloud, to another computer creates a new material object and therefore represents an unlawful reproduction of a copyrighted work, the court failed to honor the purpose of the Copyright Act and the statutory interpretation of reproduction.

Further weakening the court's ruling is the fact that ReDigi's services are distinguishable from the services provided by most of the defendants in the cases cited in the decision. The majority of precedent dealt with peer-to-peer file transfer systems, such as Napster or Grokster.[19] These systems allowed one user to copy a song from another user's computer. The first user retained the song, and the second user gained the song, resulting in the existence of duplicates. Unlike peer-to-peer software, ReDigi acts as a broker for previously owned audio files, placing songs in its Cloud Locker and monitoring whether a user has retained a copy of the song on his or her machine. ReDigi's process involves "migrating a user's file, packet by packet—"analogous to a train"—from the user's computer to the Cloud Locker so that data does not exist in two places at any one time."[20] There can be no duplicate or reproduction if data always exists solitarily.

To continue to illustrate the important distinction between the services ReDigi provides and the typical re-sale of a good, consider an example. Suppose one decides to sell a well-loved, lawfully acquired copy of *Pride & Prejudice & Zombies*[21] by taking it to a local used book store, giving it to the sales person, and awaiting commission from its sale. One has not created a new material object—a new book—and therefore has not illegally reproduced a copyrighted work. Simultaneously, I decide to sell my (also well-loved and lawfully acquired) copy of "No Scrubs" by TLC by downloading ReDigi's software, which takes the file from a computer into its Cloud Locker, holds the file until another user purchases it, and one then awaits commission. A new material object—a new copy of "No Scrubs"—was not created, yet ReDigi has illegally reproduced a copyrighted work. In both examples, possession of the material objects was *transferred* from one entity to another. Just as a new copy of the book was not made by the resale, neither was a new copy of the song. Distinguishing between the two examples to find that the former is never an infringement, and the latter is an infringement "under any description of the technology," is simply impossible.[22]

Despite the clear and fundamental difference in ReDigi's operating system and those at issue in precedent, the court relies heavily on the treatment of peer-to-peer file transfer systems in its opinion. In this, the court fails to consider the vast differences between those systems, ReDigi's services, and the advancements in technology. The court also does not distinguish ReDigi as a watchdog that keeps file sharing available to consumers, while supporting the user *and* artists by compensating both and ensuring that once a user sells a file, he or she no longer has access to it. Previously litigated file sharing companies provided no such protections and were much more dangerous to copyright holders and artists than ReDigi's services, yet ReDigi was treated identically under the law.

The exclusive right of reproduction is characterized by the creation of a "new material object and not an additional material object."[23] ReDigi neither creates a new material object, nor an additional material object; it simply takes and retains possession of a lawful owner's pre-existing material object until a new owner acquires it. It is important that the interpretation of the law is able to coincide with advances in technology while staying true to its legislative purpose. In this, "the task is not to be simplified by bright-line rules,"[24] but rather should be undertaken with an emphasis on case-by-case consideration and analysis. By positing an extremely narrow definition of a material object, failing to consider the difference in ReDigi's operating system from previously litigated file sharing systems, as well as the current differences in technology, the *ReDigi* court failed to undertake its task with an emphasis on a case-by-case basis.

The Defense of a Defense: First Sale

The first sale doctrine is an affirmative defense recognized at common law and codified in Section 109 of the Copyright Act that can be used by a defendant when a copyright holder alleges infringement of his or her exclusive right to distribution. The first sale defense states that the owner of a lawfully made copy, or any person authorized by that owner, may resell the copy without permission from the copyright owner.[25] The purpose of the first sale defense is to avoid the rigmarole that would result if every owner of a lawfully made copy of a protected work were forced to request permission of the copyright holder prior to resale. Seemingly rejecting the purpose of the first sale doctrine, the *ReDigi* court determined that because ReDigi unlawfully reproduced the copyrighted work, the copy was not lawfully made and therefore ReDigi could not be a bona fide owner under Section 109 of the Copyright Act and the first sale defense could not apply. If, as argued in the first part of this article, ReDigi did not violate Capitol's reproduction right, since no new material object was created through its services, then the first sale doctrine would undoubtedly protect ReDigi from Capitol's claim.

Admittedly, there is a potential weakness in applying first sale to ReDigi, but the court hardly discusses it. Section 109 also proclaims that first sale doctrine does not apply to "any person who has acquired possession...by rental, lease, loan, or otherwise, without acquiring ownership of it."[26] As ReDigi acquires possession in a very roundabout way, it is arguable whether ownership does indeed transfer. If ReDigi never acquires ownership of the copy, then first sale cannot apply, even if the copy was lawfully made. In a ReDigi transaction, the original buyer of the phonorecord acquired possession from iTunes, which acquired possession of the work with permission from the copyright owner. When the original buyer permits transfer of the phonorecord from his or her machine to the Cloud Locker, ReDigi definitely has possession of the file.

However, it is uncertain whether ReDigi owns the file due to its brokerage role in the transaction. Consider the typical broker relationship of a real estate broker and person searching for an apartment. It is never contemplated that the broker owns the apartment while attempting to make the sale. The broker is a third party in the transaction between a buyer and seller. If ReDigi, as a broker of used digital music, does not in fact acquire ownership of the music during the transaction, then the first sale defense could not apply. Again, this is a caveat worth discussing with regards to future cases in this area, but not an argument made by the *ReDigi* court.

The court's argument that ReDigi violated Capitol's distribution rights collapses in on itself as it cites a case stating that "once the copyright owner places a copyrighted item [here, a phonorecord], in the stream of commerce by selling it, he has exhausted his exclusive statutory right to control its distribution."[27] When applied to the case at hand, that means that once Capitol placed its copyrighted phonorecord in the stream of commerce by selling/licensing it to iTunes, it exhausted its exclusive statutory right to control its distribution. Since Capitol benefits by allowing its copyrighted work to be placed in the stream of commerce, whether by sale or licensing, it should not retain a completely exclusive right to distribution. Based on the court's own argument, Capitol should not have a claim against ReDigi because it already availed itself of its exclusive right to distribution by placing its protected work into the stream of commerce.

Despite its previous insistence that the definition of a material object does include electronic files, the court also ruled that the first sale defense does not include electronic files.[28] Evidently, the "first sale defense is limited to material items, like records, that the copyright owner put into the stream of commerce...the first sale defense does not cover [ReDigi] any more than it covered the sale of cassette recordings of vinyl records in a bygone era."[29] Put another way, there is no distinction between a physical and digital work with regards to the rights afforded a copyright owner, but there is a distinction with regards to an accused copyright infringer. If the first sale defense only extends to physical works placed in the stream of commerce by the copyright owner, then an owner of a lawfully made copy of any digital work will never be able to sell or dispose of that copy without permission.

The United States Copyright Office (USCO) also declined to allow the first sale doctrine to protect digital owners of digital works in its 2001 report on the Digital Millennium Copyright Act. The main reason cited for refusing to extend the defense to digital works was based on the differences in digital and physical markets. Essentially, the USCO decided that a secondary digital market would unacceptably hinder a primary digital market in a way for which the market for physical works is incapable.

According to the USCO, the market for a physical work changes as the quality of the embodiment of the work degrades with time. A secondary market cannot affect a primary market negatively when the qualities of goods that trickle down into it are never as good as their primary market counterparts. Basically, a premium is paid for a new physical work. In the digital market, however, things ostensibly transpire differently. A digital work retains its character and proverbial shine for an unlimited amount of time.

The USCO failed to consider that the ability to carry out the purpose of the Copyright Act is severely handicapped when digital works are not treated the same as physical works. The Constitution seeks to promote the progress of arts and science by endowing Congress with the power to protect the rights that innovators and artists have to a copyrightable work. Arts and science have progressed greatly since the Constitution was written, however. Neglecting to treat digital works as identical to physical works under every auspice of the Copyright Act offends the sanctity of the Constitution of our country. The soul of the Copyright Act protects the copyrighted expression—the lyrics, the words on a poster, the content of a book. The pages of a book may yellow in a secondary marketplace, but, like a digital work, the content remains the same. Again, an attempted distinction between physical and digital works falls short.

The court notes that the "first sale doctrine was enacted in a world where the ease and speed of data transfer could not have been imagined."[30] That may be true, but it is *now* possible to imagine how the speed of data transfer and the digital universe will grow and change. The digital market is quickly becoming the *only* market in many industries. A principle of copyright that contemplates something as transient as technology must be able to endure as the world around it changes and matures.

To conclude, the *ReDigi* court determined that the first sale defense could not apply because ReDigi unlawfully reproduced a copyrighted work. The court also noted that the first sale defense does not apply to digital works, effectively silencing any secondary marketplace for digital goods. Once again, this represents a failure to properly consider the underlying purpose of the Copyright Act and to allow the law to change appropriately to fit our society.

The Future of the Digital Marketplace

Although the decision in *ReDigi* only applies to a certain type of software, and could therefore be construed as narrow, its implications are actually quite large. Digital music sales accounted for more than half—55.9%—of United States music sales in 2012, according to Reuters.[31] Since, according to the *ReDigi* court, any type of digital transfer between one machine and another constitutes unlawful reproduction and therefore infringement, the type of goods that can be sold in a secondary digital market are now severely limited. MP3s, audio books, E-books and movies are all digital files that, due to this ruling, may not be resold by an owner of a lawful copy without first acquiring permission from the copyright holder(s).

It is worthwhile to appreciate and mourn the death of ReDigi's syndication system, in which artists and/or copyright holders would have received a portion of the commission of a sale of a used digital file. Artists and copyright holders are not paid any percentage of the price of sale for a used book or record sold at a thrift store. In this way, ReDigi's secondary market is actually more beneficial to the promotion of arts and sciences than a secondary physical market. In its navigation of a new and treacherous territory—digital resale and copyright protection—ReDigi nobly sought to protect the rights of all involved and to compensate copyright holders.

Interestingly, ReDigi's software was accepted immediately in Europe, and ReDigi operates a secondary marketplace there without any copyright issues. According to ReDigi, Europe accepted the system on the premise that ReDigi maintains ownership of the "digital bits" it transfers, and therefore no issues arise.[32] Apple Inc. (Apple) and Amazon have applied for patents for systems that permit the sale or transfer of digital goods. Amazon's patent was granted, and Apple's is pending. The future of both systems is in jeopardy in the aftermath of the *ReDigi* ruling.

Many media outlets have noted that *ReDigi* has brought to light an issue that was going to have to be dealt with sooner or later. Indeed, it is true that it is "left to Congress, and not [the] Court, to deem [the laws] outmoded."[33] While the decision is not a good start towards the formulation of a secondary marketplace for digital works, *ReDigi* is at least the start of a conversation about these advances. Hopefully, the decision will be the starting bell for a national discussion regarding how copyright law must change with the technology it serves in order to protect the rights it grants and properly serve its purpose.

Conclusion

While it does not appear that a secondary marketplace for digital works will be setting up camp in a web browser anytime soon, hopefully the *ReDigi* decision has sparked an informed dialogue about the meaning and future of digital copyright protections in the United States; a discussion involving why a file transfer, in which no duplicate is created, is tantamount to infringement by reproduction; a discussion demanding that the first sale doctrine be readdressed to conform to modern day technology, while serving the purpose it has served since 1908.

Endnotes

1. Capitol Records, LLC v. ReDigi, Inc., No. 12-00095, slip op. (D. N.Y. March 30, 2013).
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3. Matt Peckham, *ReDigi CEO Says the Court Just Snatched Away Your Right to Sell What You Legally Own*, Time Magazine (April 25, 2013), *available at* http://techland.time.com/2013/04/25/redigi-ceo-says-the-court-just-snatched-away-your-right-to-resell-what-you-legally-own/.
4. *Id*.
5. *Capitol Records,* No. 12-00095 at 3.
6. *Capitol Records,* No. 12-00095 at 12.
7. Mike Masnick, *ReDigi Loses: You Can't Resell Your MP3s (Unless You Sell Your Whole Hard Drive)*, TechDirect (April 1, 2013), http://www.techdirt.com/articles/20130401/11341622538/redigi-loses-selling-used-mp3s-online-infringes-first-sale-doesnt-apply-to-digital-transfers.shtml; Matt Peckham, *The Double Standard in the Room*, Time Magazine (April 2, 2013), http://techland.time.com/2013/04/02/the-double-standard-in-the-room-redigi-and-the-now-illegal-resale-of-mp3s/.
8. *Supra*, note 1.
9. *Capitol Records,* No. 12-00095 (ReDigi 1.0, the first version of ReDigi's software, is the operating system at issue in this litigation).
10. *Supra*, note 1.
11. *Capitol Records,* No. 12-00095 at 4.
12. 17 U.S.C. § 106(1), (3-5) (1976).
13. *Capitol Records,* No. 12-00095 at 5.
14. London-Sire, Inc. v. Doe 1, 542 F. Supp. 2d 153, 170 (D. Mass. 2008).
15. *Capitol Records,* No. 12-00095 at 5.
16. *Capitol Records,* No. 12-00095 at 6.
17. *Supra*, note 14.
18. *Supra*, note 14 at 172.
19. A&M Records, Inc. v. Napster, Inc., 239 F.3d 1004 (9th Cir. 2001).
20. *Capitol Records,* No. 12-00095 at 2.
21. Jane Austen and Seth Grahame-Smith, *Pride & Prejudice & Zombies* (Quirk Classics 2009).
22. *Capitol Records,* No. 12-00095 at 6.
23. *Id.*
24. Campbell v. Acuff-Rose Music, Inc., 510 U.S. 569, 578 (1994).
25. 17 U.S.C. § 109(a) (1976).
26. 17 U.S.C. § 109(d) (1976).
27. *Capitol Records,* No. 12-00095 at 11.
28. *Id.*
29. *Id.*
30. *Id.* at 13.
31. Jonathan Stempel & Alistair Barr, *Capitol Wins Digital Records Lawsuit vs ReDigi Start-Up*, Reuters (April 1, 2013), *available at* http://www.reuters.com/article/2013/04/01/us-capitolrecords-redigi-lawsuit-idUSBRE9300GB20130401.
32. *Supra*, note 3.
33. *Capitol Records,* No. 12-00095 at 13.

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The Right and Ability to Sue: Redefining "Control" Within § 512(c) of the Copyright Act and a Plan to Revive a Right of Action for Restitution

By Matthew R. Yogg

Section 512(c)[1] of the Copyright Act (Storage Harbor) immunizes from liability service providers that host infringing material on a system or network "by reason of the storage at the direction of a user."[2] One condition of protection, codified at § 512(c)(1)(B), provides that the beneficiary "not receive a financial benefit directly attributable to [ ] infringing activity," where it has "the right and ability to control such activity."[3] In *Viacom Int'l, Inc. v. YouTube, Inc.*,[4] the Second Circuit pronounced that a service provider's "right and ability to control [infringing] activity" requires "something more" than the ability to block users or delete content.[5] Notably, the Court's holding avoided a statutory superfluity that resulted from the Ninth Circuit's decision in *UMG Recordings, Inc. v. Shelter Capital Partners LLC*,[6] which held the provision to demand knowledge of specific instances of infringement.[7] The Second Circuit's alternate standard, however, compromises much of the predictability that the Storage Harbor intended to create.[8] Accordingly, it risks chilling the conduct of good-faith service providers, which are unaware of what the Court contemplates by "something."

This article advocates for the replacement of § 512(c)(1)(B) with an inducement liability standard derived from *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd*.[9] Moreover, in order to rebalance the inequities resulting from an even stronger safe harbor protection, it also suggests that a claim for restitution be made available to parties that are barred from suit by the Storage Harbor. Part I outlines the current state of the law, presenting the flawed interpretation originally adopted by the Ninth Circuit, as well as the ambiguous interpretation adopted by the Second Circuit. Part II discusses the potential benefits resulting from explicitly replacing the current § 512(c)(1)(B) with the purposeful inducement standard. It argues that this proposed codification both ensures the internal coherence and predictable interpretation of the Storage Harbor, while guaranteeing new protections against substantial threats to intellectual property. Part III outlines the proposed right of action for restitution. It argues that a more inclusive Storage Harbor necessitates an equitable counterbalance to recoup the losses suffered by content owners. Finally, Part IV summarizes the discussed proposals in light of the demands levied by the relentless evolution of technology.

I. Current Law

The text of § 512(c)(1)(B) mirrors the doctrine of vicarious copyright liability created by the Second Circuit in *Shapiro, Bernstein & Co v. H.L. Green Co*.[10] The doctrine implicates any party gaining "an obvious and direct financial interest in the exploitation of copyrighted materials," where that party has "the right and ability to supervise" the infringing activity.[11] Generally, any showing that the defendant received a monetary benefit and exercised the "'ability to block infringers' access to a particular environment for any reason whatsoever,'" satisfies the doctrine.[12] Accordingly, vicarious liability creates an affirmative duty to survey and police for infringing activity.[13] For this reason, § 512(c)(1)(B) cannot assume the standard of its counterpart in vicarious liability.[14] This practice would derogate § 512(g)(1), which unequivocally protects a party's "good faith disabling of access to, or removal of" infringing material.[15]

In an attempt to create a new standard, courts have struggled to adequately reconcile the text of § 512(c)(1)(B) with the policy objectives of the Storage Harbor. No proffered reading adequately addresses both concerns. Recent decisions of the Ninth and Second Circuits best illustrate this difficulty.[16]

Approach 1: *UMG II*

In *UMG Recordings, Inc. v. Shelter Capital Partners LLC*[17] (*UMG II*), the Ninth Circuit held that a service provider must be aware of specific infringing activity in order to have the right and ability to control it.[18] In addition to largely affirming the district court's judgment, the Court endorsed the Southern District of New York's analysis in *Viacom Intern. Inc. v. YouTube, Inc.*[19] (*Viacom I*), which found that a service provider without knowledge of specific infringements lacked "the kind of ability to control infringing activity the statute contemplates."[20]

The specific knowledge requirement has since been abandoned. As noted by the Second Circuit in *Viacom II*, "importing a specific knowledge requirement into § 512(c)(1)(B) renders the [subsection] duplicative of § 512(c)(1)(A)," a qualification that already exempts service providers with specific knowledge of infringing activity.[21] Federal courts disfavor any legislative interpretation that "renders superfluous another portion of that same law."[22] A specific knowledge requirement, however, permits no scenario in which a service provider that violates § 512(c)(1)(B) would not also violate § 512(c)(1)(A).[23] Moreover, the plain meaning of "control" does not require specific knowledge of content. Using a Webster's *Third New International Dictionary*, the Ninth Circuit defines control as the "power or authority to guide or manage: directing or restraining domination."[24] It purportedly used this definition to find that Veoh's lack of actual knowledge of infringing activity made the exercise of "control" a practical impossibility.[25] The Court limited its analysis, however, to Veoh's "restraining domination" over infringing content, excluding the remaining measures of control within the dictionary definition.[26]

Even assuming that "restraining dominion" requires actual knowledge, the Court ignored Veoh's right and ability to "guide" or "manage" infringing content, both measures that have independent connotations within its selected definition. Remarkably, they appear to closely characterize the automated processes that service providers employ to administer user-uploaded content. For example, Veoh's software appears to "guide" content by designating server destinations and web addresses that uniquely identify location.[27] Moreover, it appears to "manage" content by sectioning video files into 256–kilobyte parts, converting videos into Flash 7 or Flash 8, and tagging the content with metadata conversion.[28] Veoh completes these procedures on all user-uploaded content—infringing and non-infringing—by means of automated processes that lack the capacity to ascertain actual knowledge of infringement.[29] Generally, where a statutory interpretation exists that "respects the words of Congress," a federal court must favor it over an alternative that defies those same words.[30] "Control" connotes a wide range of definitions, many of which do not require specific knowledge. Accordingly, those definitions that do not demand specific knowledge must apply to the Storage Harbor.

Approach 2: *Viacom II*

In *Viacom II*,[31] the Second Circuit interpreted the "right and ability to control" as not requiring specific knowledge, choosing instead to define the applicable standard as "something more" than a service provider's ability to block users or delete content.[32] The Court's judgment reversed the *Viacom I* court, and subsequently influenced the Ninth Circuit to withdraw and reissue its *UMG II* decision (*UMG III*), which substantially adopted the "something more" standard.[33] Accordingly, it remedied the statutory superfluity and incongruence resulting from a requirement for specific knowledge. The Second Circuit's "something more" standard, however, abrogates the intended predictability of the Storage Harbor. The Digital Millennium Copyright Act (DMCA) sought to support electronic commerce through the free operation of online services. It provided this support through its "greater certainty to service providers concerning their legal exposure for infringements that may occur in the course of their activities."[34] By imposing a new and undefined risk to service providers, the Court greatly compromises the underlying objectives of the DMCA.

In dicta, the Court offers two decisions that it suggests might embody a proper measure of control under § 512(c)(1)(B).[35] *Perfect 10, Inc. v. Cybernet Ventures, Inc.*,[36] and *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*[37] In subsequent decisions, both cases have been cited by courts attempting to define the "something more" standard.[38]

Approach 2-A: *Perfect 10, Inc. v. Cybernet Ventures, Inc.*

In *Perfect 10, Inc. v. Cybernet Ventures, Inc.*,[39] the Central District of California found that the operator of an age-verification service for infringing adult websites had exercised sufficient control to disqualify it from Storage Harbor protection.[40] The Second Circuit identified language within the *Cybernet* court's opinion, discussing the defendant's "detailed instructions regard[ing] issues of layout, appearance, and content," as well as its practice of excluding "certain types of content and refus[ing] access to users who failed to comply with its instructions."[41]

Incredibly, the *Cybernet* court's interpretation of § 512(c)(1)(B) furthers no cognizable interest of either content owners or service providers.[42] In contrast to § 512(c)(1)(B), vicarious liability contemplates how those having the right and ability to control content should exercise a duty to survey and police for infringing activity.[43] As noted in *Shapiro, Bernstein & Co v. H.L. Green Co.*,[44] vicarious liability is a policy decision to benefit the protections of copyright law.[45] In theory, vicarious infringers are in the best position to guard against infringement.[46] It follows that their failure to prevent detectable acts of infringement signifies "pervasive participation in [its] formation and direction."[47] The DMCA safe harbors, however, contradict vicarious liability by refusing to place any affirmative duty upon service providers.[48] Section 512(c)(1)(B)'s measure of "pervasive participation," therefore, must hinge upon a party's affirmative actions, rather than its unwillingness to police its network or server.[49] The *Cybernet* language selected by the Second Circuit, however, does little to distinguish between permissible and impermissible affirmative actions. It cites instructions on appearance, layout, and restricted content—all features that are familiar practices of good faith service providers.[50] The resulting Storage Harbor, therefore, risks deterring good faith acts that do no harm to content owners or copyright law. The scope of deterrence may cover anything that resembles this ubiquitous notion of "control."

Approach 2-B: *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*

In *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*,[51] a conglomerate of copyright holders brought suit against the distributor of peer-to-peer file sharing software.[52] The defendant sought protection under *Sony Corp. of Am. v. Universal City Studios, Inc.*,[53] which limits distributor liability for products that are capable of substantial non-infringing uses.[54] A unanimous Supreme Court found the defendant ineligible for *Sony Corp.* protections on the narrow grounds that "one who distributes a device with the object of promoting its use to infringe copyright, as shown by clear expression or other affirmative steps taken to foster infringement, is liable for the resulting acts of infringement by third parties."[55] In its analysis, the Court first introduced its threshold requirement that there be "clear expression or other affirmative steps taken to foster infringement."[56] Next, it balanced three additional factors for final determination: (1) proactive attempts to solicit the market of a former infringing service; (2) the failure to develop tools to screen infringing content; and (3) a financial benefit directly attributable to the infringing activity.[57]

Grokster would provide the Storage Harbor with a novel instrument.[58] The Storage Harbor's plain text unequivocally bars all "monetary," "injunctive," or "other equitable relief" for infringement arising out of user storage.[59] Moreover, the *Grokster* Court explicitly limited its holding to parties that distribute a product or device.[60] Accordingly, the current Storage Harbor has no defense against parties that purposefully induce infringement.[61]

II. The Inducement Exemption

By substituting the current text of § 512(c)(1)(B) with a standard based on purposeful inducement (hereinafter the "Inducement Exemption" or "Inducement Standard"), *Grokster* serves the Storage Harbor by both adding a good provision and subtracting a bad one.[62] The resulting statute would ensure the internal coherence and predictable interpretation of the Storage Harbor, while awarding new protections against substantial threats to intellectual property. The following sections outline three arguments supporting this substitution: (a) coherence, (b) predictability, and (c) protection.

A. Coherence

The Inducement Exemption respects the Storage Harbor's statutory text. First, it retains independent significance within § 512(c). Unlike the Ninth Circuit's initial decision in *UMG II*, the Inducement Exemption does not render § 512(c)(1)(B) superfluous.[63] Rather, it can be met without actual knowledge, relieving § 512(c)(1)(B) from its necessary implication of § 512(c)(1)(A).[64] Second, unlike *UMG II*, the Inducement Exemption does not unnaturally restrain the meaning of "control."[65] Rather, it reflects the natural interpretation of a generally accepted dictionary definition.[66]

B. Predictability

The Inducement Exemption makes the Storage Harbor predictable. Unlike the ambiguity created by *Viacom II*, the Standard proscribes well-defined conduct having obvious culpability.[67] Additionally, its explicit inclusion within the Storage Harbor resolves any uncertainty regarding its applicability.

Critics claim that *Grokster*'s holding has chilled electronic commerce.[68] Shortly after its rendering, Professor Lawrence Lessig noted that its uncertainty will enable "great opportunities to defeat legitimate competition."[69] Yet, after nearly eight years, no good-faith martyr has ostensibly languished or faltered. A likely explanation is the manifest threshold for the Inducement Standard, which requires a showing of "purposeful, culpable expression and conduct."[70] By refusing to presume or impute fault, the Inducement Standard settles ambiguity in favor of protection, largely endorsing good-faith conduct. Moreover, the standard seeks out "active steps…taken to encourage direct infringement."[71] As inducing parties rely on infringing user-uploaded content to generate traffic and revenue, *active steps* to solicit user infringement reflect rational behavior. Accordingly, the standard logically tracks common indicators of inimical intent.

C. Protection

The Inducement Exemption excludes from the Storage Harbor services that levy the greatest harm on content owners. While *Grokster*'s factors help deduce intent, they also correlate to aggravated harms that disproportionately affect content owners.[72] Consequently, a party that satisfies these factors not only demonstrates a likelihood of inimical intent, but also threatens a disproportionate harm to content owners. First, the appropriation of an infringing service's market can illustrate intent to continue the former service's business.[73] These services, however, often fail due to their high incidence of user infringement. Accordingly, a new service, which is designed to appropriate the former market, will likely succeed by appealing to users that seek to continue infringing practices. Second, the failure to develop screening tools can illustrate intent to entice infringing users.[74] The resulting service also permits more unchecked user infringement because it lacks the tools to prevent it. Third, the resulting financial benefit can identify a business model that encourages user infringement.[75] A significant benefit, however, also implicates a comparable collective harm upon content owners.

Perhaps the best illustration of the Inducement Exemption's financial impact is the story of Grokster itself. At its peak, users shared billions of files each month across the FastTrack and Gnutella networks, nearly 90% of which were infringing works.[76] After the Court's decision, the media market experienced a noticeable benefit, with pure play services benefiting the most.[77] Today, new peer-to-peer software circumvents *Grokster*'s protections by using decentralized networks and web-based applications.[78] These new practices align many new peer-to-peer services with the DMCA's definition for "service provider," a prerequisite for Storage Harbor eligibility.[79] Accordingly, the Inducement Exemption would adapt *Grokster*'s protection to better meet the evolving threat of changing technologies.[80]

III. The Harbor Action

While an inclusive Storage Harbor is necessary for service provider viability, its implementation—even with the Inducement Exemption—threatens to further the inequities suffered by content owners. In 2007, Veoh allegedly hosted over 60,000 unauthorized works.[81] In the same year, YouTube disclosed that 75% to 80% of its content streams contained infringing content.[82] In suits against these services, however, the pervasive incidence of infringement excluded neither defendant from Storage Harbor protection, demonstrating the judiciary's persistent intent to uphold its protections.[83]

The inequities resulting from the necessary protection of service providers continues to grow. Mobile technology poses the greatest threat to the increased dissemination of infringing content.[84] On demand video services such as Veoh and YouTube represent the greatest share of mobile web traffic and continue to drive network forecasts.[85] The Storage Harbor's current legal framework, however, can do little to correct the imbalance. The rapid globalization of mobile technology foreshadows an unchecked rise in infringing user-uploaded content that will exacerbate these existing inequities.

A. The Revival

The revival of a right of action for restitution (the Harbor Action), made available to parties barred from suit by the Storage Harbor, is a necessary recoupment of content owner losses.[86] The Harbor Action leaves the Storage Harbor's protection against conventional forms of copyright liability unaffected. The resulting framework strikes a viable compromise that sustains the interests of both service providers and content owners.

Adjudicatory efficiency must be a primary Harbor Action concern. In copyright, restitution typically represents a mere fraction of available infringement damages.[87] Accordingly, wasteful litigation expenses would likely subsume any equitable benefit. The Uniform Dispute Resolution Policy (UDRP) offers helpful guidance.[88]

B. UDRP Tenents

The UDRP provides an alternative forum for disputes arising out of registered domain names that are identical or confusingly similar to another's trademark.[89] The system facilitates efficient resolution through its narrowly tailored structure.[90] In contrast to the UDRP, the Harbor Action is not an alternative procedural mechanism for the enforcement of existing rights, but a new action to strengthen the substantive rights of content owners. Nonetheless, the UDRP's proven success remains a valuable aid.

Three UDRP tenents advance the Harbor Action. First, proceedings must avoid federal courts. By limiting its forum, the UDRP remains unburdened by procedural hurdles that generate years of costly litigation.[91] Second, proceedings must have a narrow scope. The UDRP's custom-tailored procedure facilitates focused proceedings and specialized judges.[92] Moreover, by adjudicating only one type of claim, the UDRP considers limited questions of fact.[93] Third, proceedings must have a simple remedy. The UDRP's limited pallet of equitable remedies avoids the burdensome task of calculating abstract monetary judgments.[94]

1. Forum

Informal settings are effective alternatives for resolving online disputes.[95] The UDRP recognizes this benefit by requiring that all domain name registrants agree to submit to arbitration if registration is alleged to have been made in bad faith.[96] Additionally, the UDRP incentivizes complainant participation. While a complainant's pursuit in federal court may permit more expansive remedies, it also requires the expenditure of substantially more time and money.[97]

Unfortunately, Harbor Actions cannot rely on controlling agreements to limit either party's choice of forum. Nonetheless, by vesting administrative courts with exclusive original jurisdiction, complainants have no other available option.[98] Respondent compliance presents the greater challenge. The Harbor Action incentivizes compliance, however, by conditioning Storage Harbor protection against conventional infringement upon respondent submission.[99] A non-compliant service provider would be estopped from employing the Storage Harbor in a subsequent infringement action arising out of the same Harbor Action facts. Additionally, the Harbor Action incentivizes service provider accessibility. It requires that the designated agent for receipt of take-down notices also be available for receipt of Harbor Action summonses.[100]

2. Scope

Focused proceedings promote efficiency. The UDRP remedies issues involving one type of claim, not all domain name misconduct.[101] Moreover, it resolves claims using three prima facie elements, which isolate particularized conduct that is familiar to the court.[102] The resulting system is a model of institutional efficiency and effectiveness.[103]

Similarly, the Harbor Action limits its scope by hearing only Harbor Action claims. Each prospective complainant must stipulate that the respondent is protected from conventional liability under the Storage Harbor.[104] Evidence related to infringement, therefore, becomes irrelevant to proceedings. Additionally, the forced stipulation deters complainants from seeking two bites at the apple; where a complainant subsequently pursues infringement damages in federal court on the facts of an adjudicated Harbor Action, the signed stipulation admitting Storage Harbor protection would likely be admissible hearsay as a party admission.

The Harbor Action further limits its scope by restricting proof to three prima facie elements: (1) the complainant owns the registered copyright, (2) the subject of the copyright was disseminated without authorization, and

(3) the respondent administered the service during the period of unlawful dissemination.[105] These elements do not lend themselves to broad factual dispute. Complainants may satisfy factor one with any document proving registration with the Library of Congress. The exclusion of unregistered works diminishes factual issues of copyright validity and priority. Complainants may satisfy factor two using generally recognized practices for the calculation of webpage impressions. Despite the seeming complexity, webpage impression calculations are a ubiquitous element of Internet commerce, with commercial advertisers and sponsors relying on the accuracy and integrity of the statistics.[106] Finally, complainants may satisfy factor three with any document proving domain name registration during the period of unauthorized dissemination.

In contrast to the UDRP, the Harbor Action requires no evidence of knowledge or intent.[107] Accordingly, it avoids costly inferential evidence, mirroring the simplicity of strict liability.

3. Remedy

The UDRP limits available remedies to the transfer or cancellation of domain names.[108] The system maintains efficiency by avoiding the evidentiary factors necessary to prove a money judgment. In contrast, the Harbor Action requires money judgments that approximate the respondent's level of unjust enrichment. Consequently, it risks costly litigation on the subjective value of the award. The use of a damage algorithm that calculates presumptive restitution rates, however, mitigates much difficulty resulting from determining judgment sizes.

When appropriate, the administrative judge will calculate a presumptive rate that represents the product of two factors: (1) the number of unauthorized disseminations of an infringing work, and (2) a per-stream statutory rate set by copyright royalty judges (CRJs).[109] Parties to the Harbor Action may argue for a per-stream rate that differs from the statutory rate so as to more accurately reflect the respondent's unjust enrichment. If no argument persuades the judge, the per-stream statutory rate will prevail and the presumptive award will stand.[110]

C. The Per-Stream Statutory Rate

As the only adjustable factor, the per-stream statutory rate will become the primary means to manipulate presumptive Harbor Action awards. This rate will likely dictate the general size of Harbor Action judgments. Accordingly, the per-stream rate must carefully balance the financial interests of content owners against the resulting effects on service providers. Two factors are relevant to this rate:

1. Extent of Restitution

Restitution establishes its measure of reallocated profits based upon the culpability of a defendant.[111] The *Restatement (Third) of Restitution and Unjust Enrichment* (Restatement) argues that conscious-wrongdoers should relinquish the "net profit attributable to the underlying wrong," in order to "eliminate any profit from wrongdoing while avoiding…the imposition of a penalty."[112]

The Restatement defines conscious-wrongdoers as parties "enriched by misconduct," while acting "despite a known risk that the conduct in question violates the rights of the claimant."[113] While it is often difficult to prove actual knowledge under § 512(c)(1)(A) of the Storage Harbor, most service providers warrant "conscious-wrongdoer" status under the Restatement. For example, YouTube likely meets the standard.[114] The *Viacom II* court's findings establish an undisputed financial benefit from infringing conduct, while illustrating not only an *awareness* of risk, but also constructive knowledge of rights violations. Accordingly, the presumptive rate must reflect conscious-wrongdoer status, implicating the reallocation of net profits directly attributed to infringing activity.[115]

2. Net Profits

CRJs must ascertain an average per-stream net profit attributable to the presence of an infringing work. While restitution may reflect any benefit attributable to infringement, advertising revenue remains the primary benefit enjoyed by service providers.[116] Sponsors often make payments pursuant to a CPM rate, which represents their pecuniary compensation for every 1,000 users that encounter a sponsor's advertisement.[117] By discerning an average CPM associated with each stream, CRJs can approximate the gross profit generated by a user visit. Some financial benefit, however, may also result from factors that are independent of the infringement.[118] For example, users may seek a hosted video containing an infringing song to see the synchronized home video. Alternatively, users may merely wish to study a service provider's video portal layout. Like an infringing work, these factors draw user traffic. They contribute to the service provider's monetary gain by generating additional advertisement impressions. Their monetary contributions, however, cannot serve as a basis of restitution because they cannot be attributed to the infringement. Accordingly, they must be deducted from the average gross revenue. Nevertheless, these deductions—however abstract—are severable from the benefits derived from the infringement, even within the disjointed mixture of commerce and art.[119] After deducting an average associated expense, CRJs will have an average net profit that will approximate each service provider's net gain directly resulting from an infringing dissemination. This figure will serve as the functional per-stream statutory rate.

D. The Ex Post Statutory License

The Harbor Action resembles an ex post statutory license by encouraging constructive negotiation and compromise after a right has accrued. One such statutory license, the compulsory or mechanical license, affords the prospective right to record and distribute any non-dramatic musical work previously released in the United States.[120] Parties rarely effectuate this statutory license, however, more often preferring the individualized tailoring of private agreements.[121]

Similar to the compulsory license, the Harbor Action is a "one-size-fits-all" approximation of desirable procedures and party interests. While its universal applicability is necessary, the Harbor Action may become a penalty default that encourages individual negotiation and settlement. Moreover, the predictability of liability and awards may make formal proceedings futile. Parties would always have the right, however, to pursue a formal action in case of gridlock. The resulting framework would facilitate individualized remedies and proceedings, while avoiding an excessive burden on administrative courts.

IV. Conclusion

The last 15 years have seen innovation that dwarfs the 22 years that followed the passage of the original Copyright Act.[122] The DMCA's Storage Harbor has become a notable casualty of Congressional inaction. The circuit split on the outcome-determinative "right and ability to control,"[123] coupled with growing inequities placed on content owners, illustrate the need for amendment to the Storage Harbor. The replacement of § 512(c)(1)(B) with the Inducement Exemption rectifies the Storage Harbor's language, and forestalls a major threat to content owners. Moreover, the added Harbor Action better preserves the channels of electronic communication, while continuing to stimulate the creation and exploitation of content. Upon its growth, the Harbor Action will incentivize the resolution of accrued disputes through private agreement, leaving administrative courts unburdened. These changes[124] will help realign the balance between content owners and service providers in light of the demands levied by the relentless evolution of technology.

Endnotes

1. 17 U.S.C. § 512(c) (2006).
2. *Id.* at § 512(c)(1).
3. *Id.* at § 512(c)(1)(B).
4. 676 F.3d 19 (2d Cir. 2012).
5. Viacom Int'l, Inc. v. YouTube, Inc., 676 F.3d 19, 38 (2d Cir. 2012) (hereinafter "*Viacom II*").
6. *Viacom II*, 667 F.3d 1022 (9th Cir. 2011).
7. UMG Recordings, Inc. v. Shelter Capital Partners LLC, 667 F.3d 1022, 1042 (9th Cir. 2011), *opinion withdrawn and superseded on reh'g*, 09-55902, 2013 WL 1092793 (9th Cir. 2013) (hereinafter "*UMG II*"). The Ninth Circuit has since withdrawn and reissued its opinion, agreeing with the Second Circuit's finding that § 512(c)(1)(B) cannot require knowledge of specific instances of infringement. *See* UMG Recordings, Inc. v. Shelter Capital Partners LLC, 09-55902, 2013 WL 1092793 (9th Cir. 2013) (hereinafter "*UMG III*").
8. *Compare id.* at 38 (providing a legal standard based on "something more"), *with* H.R. Rep. No. 105–551, pt. 2, at 49 ("[Section 512] provides greater certainty to service providers concerning their legal exposure for infringements that may occur in the course of their activities.").
9. 545 U.S. 913 (2005).
10. 316 F.2d 304 (2d Cir. 1963).
11. *Id.* at 307.
12. Arista Records LLC v. Usenet.com, Inc., 633 F.Supp.2d 124, 157 (S.D.N.Y. 2009) (quoting A&M Records, Inc. v. Napster, Inc., 239 F.3d 1004, 1023 (9th Cir. 2001).
13. Gershwin Publishing Corp. v. Columbia Artists Management, Inc., 443 F.2d 1159, 1163 (2d Cir. 1971) (indicating that a duty exists where a party is in a position to police the infringing activities of others).
14. *See UMG II*, 667 F.3d at 1042 (explaining that § 512(c)(1)(B) would be internally inconsistent if it replicated vicarious liability). One additional argument advanced by both the Ninth and Second Circuits against this reading was that if Congress had "intended that the § 512(c)(1)(B) 'right and ability to control' requirement be coextensive with vicarious liability law, the statute could have accomplished that result in a more direct manner." *Id.* at 1045. This argument presumes that Congress intends to abrogate the meanings of common law terms written into statutes, a presumption completely in opposite with the federal court practice to presume that congressional use of common law terms signifies Congress' intent to employ the common law meaning. *See, e.g.*, Wallace v. Kato, 549 U.S. 384, 127 (2007); Community for Creative Non-Violence v. Reid, 490 U.S. 730, 739 (1989). Moreover, the argument ignores the fact that the § 512(c)(1)(B) Benefit Provision is coextensive with vicarious liability law without any explicit statement to that effect in the statute. *See* § 512(c)(1)(B).
15. *See* § 512(g)(1).
16. *See generally UMG II*, 667 F.3d 1022; *Viacom II*, 676 F.3d 19.
17. *UMG II*, 667 F.3d 1022.
18. *Id.* at 1042.
19. 718 F. Supp. 2d 514 (S.D.N.Y. 2010), *aff'd in part, vacated in part, remanded*, 676 F.3d 19 (2d Cir. 2012) (hereinafter "*Viacom I*").
20. *See UMG II*, 667 F.3d at 1041.
21. *Viacom II*, 676 F.3d at 36.
22. *See* Williams v. Taylor, 529 U.S. 362 (2000) (describing this rule as a "cardinal principle of statutory construction"); *see also Viacom II*, 676 F.3d at 31 ("[W]e are required to 'disfavor interpretations of statutes that render language superfluous.'") (citing Conn. ex rel. Blumenthal v. U.S. Dep't of the Interior, 228 F.3d 82, 88 (2d Cir. 2000)).
23. *See* 17 U.S.C. § 512(c)(1)(A)-(B). Where an interpretation avoids superfluities, federal courts must favor that interpretation. Freeman v. Quicken Loans, Inc., 132 S. Ct. 2034, 2043 (2012) (citing Microsoft Corp. v. i4i Ltd. P'ship, 131 S. Ct. 2238, 2248 (2011)).
24. *UMG II*, 667 F.3d at 1042 (citing Webster's Third New International Dictionary 3, 496 (2002)).
25. *Id.* at 1041.
26. *Id.*
27. *Id.* at 1027.
28. *Id.*
29. *Id.*
30. Lamie v. U.S. Tr., 540 U.S. 526, 536 (2004).
31. *Viacom II*, 676 F.3d 19.
32. *Id.* at 38.
33. *Id.* at 29.
34. The DMCA sought to "facilitate the robust development and worldwide expansion of electronic commerce, communications,

research, development, and education in the digital age.'" Perfect 10, Inc. v. Visa Int'l Service Ass'n, 494 F.3d 788, 794 (9th Cir. 2007) (quoting S. Rep. 105-190, at 1-2 (1998)).

35. *Viacom II*, 676 F.3d at 38.

36. 213 F.Supp.2d 1146 (C.D. Cal. 2002).

37. 545 U.S. 913 (2005).

38. *See UMG III*, 2013 WL 1092793; *Viacom III*, 2013 WL 1689071.

39. 213 F.Supp.2d 1146 (C.D. Cal. 2002).

40. Perfect 10, Inc. v. Cybernet Ventures, Inc., 213 F.Supp.2d 1146, 1174 (C.D. Cal. 2002).

41. *Viacom II*, 676 F.3d at 38 (quoting *Cybernet*, 213 F.Supp.2d at 1173).

42. Moreover, the legislative history surrounding the purpose of § 512(c)(1)(B) is vague and inexact. *See, e.g.,* H.R. Rep. 105-551, pt. 2, at 54 (1998) (describing the meaning of "direct financial benefit," while ignoring the meaning of "control").

43. Gershwin Publishing Corp. v. Columbia Artists Management, Inc., 443 F.2d 1159, 1163 (2d Cir. 1971) (indicating that a duty exists where a party is in a position to police the infringing activities of others).

44. 316 F.2d 304 (2d Cir. 1963).

45. Shapiro, Bernstein & Co v. H.L. Green Co., 316 F.2d 304, 307 (2d Cir. 1963).

46. Letter from Melville B. Nimmer to the Copyright Office, in Study No. 25 Prepared for the Subcomm. on Patents, Trademarks, and Copyrights of the Senate Comm. on the Judiciary, 86th Cong., 2nd Sess. 169.

47. *See Gershwin*, 443 F.2d at 1163.

48. *See* 17 U.S.C. § 512(m)(1) (2006); *see also* Perfect 10, Inc. v. CCBill LLC, 488 F.3d 1102, 1113 (9th Cir. 2007) ("The DMCA notification procedures place the burden of policing copyright infringement—identifying the potentially infringing material and adequately documenting infringement—squarely on the owners of the copyright.").

49. *UMG II*, 667 F.3d at 1038 ("We do not place the burden of determining whether [materials] are actually illegal on a service provider.").

50. For example, Google BlogSpot appears to meet the *Cybernet* standard, as quoted by the Second Circuit: Pages cannot exceed 1 MB of storage. Each page's description is limited to 500 characters, the "About Me" section is limited to 1,200 characters, and both the "Profile Interests" and "Favorites" sections are limited to 2,000 characters. Each blog may only contain a total of 2,000 unique labels, while each post may only contain 20 unique labels. Photographs may only be shared with Picasa Web. Each blog may only have 100 followers. *See generally* Google BlogSpot, http://googleblog.blogspot.com/ (last visited Oct. 26, 2012).

51. 545 U.S. 913 (2005).

52. Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd., 545 U.S. 913, 920-21 (2005).

53. 464 U.S. 417, 442 (1984).

54. *Grokster*, 545 U.S. at 923.

55. *Id.* at 936. In a footnote, the Court explains that inducement liability also requires distribution of an actual tool or device that facilitates direct infringement. *Id.* at 940 n.13.

56. *Id.* at 936–37.

57. *Id.* at 939–40.

58. On remand from the Second Circuit, Judge Stanton, speaking for the *Viacom III* court, opined that the *Viacom II* court's reference to *Grokster* "kept intact its 'first and most important' determination that the DMCA requires 'actual knowledge or awareness of facts or circumstances that indicate specific and identifiable instances of infringement' before disqualifying a service provider from the safe harbor." *Viacom III*, 2013 WL 1689071. While somewhat unclear, the court appears to infer that liability under *Grokster* requires specific knowledge of infringing activity, an inference that would presumably contradict the Second Circuit's holding. *See Viacom II*, 676 F.3d at 38.

59. 17 U.S.C. 512(c)(1). While the *Grokster* Court introduced "inducement liability" as its limitation on the "Sony-Betamax" safe harbor, plaintiffs' underlying cause of action was in vicarious liability, which the legislature sought to bar with the Storage Harbor. *See, e.g.*, S. Rep. No. 105–190, at 40 ("The limitations in subsections (a) through (d) protect qualifying service providers from liability for all monetary relief for direct, vicarious, and contributory infringement."); H.R. Rep. No. 105–551, pt. 2, at 50 (same).

60. *Grokster*, 545 U.S. at 936.

61. *See, e.g.*, Columbia Pictures Indus., Inc. v. Fung, 710 F.3d 1020, 1039–40 (9th Cir. 2013) (rejecting the notion that inducement liability and the Digital Millennium Copyright Act safe harbors are "inherently contradictory"). The court concluded that a service provider that is liable for inducement may nonetheless "be entitled to protection under the safe harbors." *Id.* at 1040.

62. The proposed § 512(c)(1)(B) (hereinafter "512(c)(1)(B)-Proposal") reads as follows (additions in italics):

> (1) In general. A service provider shall not be liable…if the service provider…
>
> . . .
>
> *(B) does not take active steps to encourage direct infringement.*
>
> *(i) Where a service provider does take active steps to encourage direct infringement, the following factors shall be considered in determining amenability to suit:*
>
> *(I) proactive attempts to solicit the market of a former infringing service;*
>
> *(II) the failure to develop tools to screen infringing content; and*
>
> *(III) the financial benefit directly attributable to the infringing activity; and….*

63. *Compare UMG II*, 667 F.3d at 1042, *with* 512(c)(1)(B)-Proposal, *supra* note 62.

64. *See generally Grokster*, 545 U.S. at 941 (finding liability possible where the defendant had no actual knowledge of infringement).

65. *See* 512(c)(1)(B)-Proposal, *supra* note 62; *cf. UMG II*, 667 F.3d at 1041.

66. *See supra* note 24 and accompanying text.

67. *See Viacom II*, 676 F.3d at 38.

68. *See, e.g.*, Lital Helman & Gideon Parchomovsky, *The Best Available Technology Standard*, 111 Colum. L. Rev. 1194, 1206 (2011) (arguing that any service provider that unknowingly hosts infringing content could warrant inducement liability without an insidious intent).

69. Rob Hof, *Larry Lessig: Grokster Decision Will Chill Innovation*, Bus. Week Online, June 28, 2005, http://www.businessweek.com/the_thread/techbeat/archives/2005/06/larry_lessig_gr.html (alterations in original) (quoting an interview with Larry Lessig, Professor of Law, Stanford Law School, by Robert Hof).

70. *Grokster*, 545 U.S. at 937.

71. *Id.* at 936.

72. *Id.* at 939–40.

73. *See id.* at 939.

74. *See id.*

75. *See id.*

76. *Id.* at 922.

77. Dreamworks Animation SKG jumped 5.4%, Pixar jumped 0.8%, and Napster jumped 4.0%. Kathleen Pender, *Grokster Decision*

Has Industry Listening, S.F. CHRON., June 28, 2005, at D1. Large conglomerates, such as Apple and RealNetworks, did not exhibit such dramatic gains because their content services account for only a fraction of their business operations. *Id.* at D1.

78. *See generally* Bryan H. Choi, Note, *The Grokster Dead-End*, 19 HARV. J. L. & TECH. 393, 402-406 (2006).

79. A "service provider," as defined under the DMCA, is "a provider of online services or network access, or the operator of facilities thereof." *Id.* at § 512(k)(1)(B).

80. Grooveshark is a service that permits users to share their MP3 libraries over a network database to be streamed by other users. *See* Glenn Peoples, *EMI Sues Grooveshark For Third Time, Seeks Trial and Damages*, BILLBOARD, Sep. 6, 2012, at 24. The service has inspired four lawsuits, claiming Storage Harbor protection in each. *See generally* UMG Recordings, Inc. v. Escape Media Group, Inc., 948 N.Y.S.2d 881 (Sup. Ct. 2012). As it is a "rich" Internet application, which does not require the distribution of a product or device, Grooveshark is presumably immune from *Grokster*'s inducement liability.

81. *UMG II*, 667 F.3d at 1028.

82. *Viacom II*, 676 F.3d at 33.

83. *See UMG II*, 667 F.3d at 1028; *Viacom II*, 676 F.3d at 33.

84. Mobile web traffic almost doubled between 2011 and 2012, and is on pace to increase by a factor of 15 by 2017. *See* Ericsson, TRAFFIC AND MARKET REPORT, 3 (June 2012 ed.), *available at* http://www.ericsson.com/res/docs/2012/traffic_and_market_report_june_2012.pdf [hereinafter Ericsson]. Moreover, active mobile-broadband subscriptions numbered 1.2 billion, growing by 45% in each of the four preceding years. Ericsson, *supra* at 13. Analysts predict this number to reach 5 billion by 2017. World Telecommunications/ICT, INDICATORS DATABASE 2012, 4 (16th ed., 2012), *available at* http://www.itu.int/ITU-D/ict/publications/world/world.html.

85. Ericsson, *supra* note 84, at 22.

86. *See* 512(c)(4)(A)-Proposal, *infra* note 98.

87. *See* RESTATEMENT (THIRD) OF RESTITUTION AND UNJUST ENRICHMENT § 3 cmt. a (2011) [hereinafter "Restatement"].

88. At least one proposed copyright model incorporates the UDRP framework. In 2005, Professors Mark Lemley and Anthony Reese published an administrative procedure for the adjudication of peer-to-peer file sharing infringement claims. *See* Mark A. Lemley & R. Anthony Reese, *A Quick and Inexpensive System for Resolving Peer-to-Peer Copyright Disputes*, 23 CARDOZO ARTS & ENT. L. J. 1 (2005). Their model provides copyright holders with the option to pursue an administrative dispute resolution proceeding against alleged infringers. Lemley & Reese, *supra* at 3–4. Lemely and Reese argue that this action provides a "quicker, lower-cost alternative for copyright owners to enforce their rights against individual large-scale infringers on [peer-to-peer] networks." Lemley & Reese, *supra* at 9.

89. *See generally* Uniform Domain Name Dispute Resolution Policy, Internet Corp. for Assigned Names & Nos. at ¶ 4(a) (1999), http://www.icann.org/en/help/dndr/udrp/policy [hereinafter "UDRP Policy"].

90. *See* UDRP Policy, *supra* note 89, at ¶ 4.

91. *See* Guide to the Uniform Domain Name Dispute Resolution Policy, World Intellectual Prop. Org., ¶ B(2)–(3), http://www.wipo.int/amc/en/domains/guide/ (last visited Oct. 16, 2011). Most basic matters entail a fee of $1,500 to be paid by the complainant. *Id.* at ¶ B(3). Decisions are usually rendered within 60 days of receipt of the complaint. *Id.* at ¶ B(2).

92. *See generally* Chris Guthrie et al., *The "Hidden Judiciary": An Empirical Examination of Executive Branch Justice*, 58 DUKE L. J. 1477, 1491 (2009) (discussing how the ability to specialize contributes to greater accuracy and efficiency of administrative law proceedings).

93. *See* UDRP Policy, *supra* note 89, at ¶ 5.

94. *See* UDRP Policy, *supra* note 89, at ¶ 3.

95. *See*, *e.g.*, Eric J. Mogilnicki & Kirk D. Jensen, *Arbitration and Unconscionability*, 19 GA. ST. U. L. REV. 761, 776–77 (2003) (discussing ADR benefits including speed, ease, simplicity, flexibility, and convenience); Stephen J. Ware, *Paying the Price of Process: Judicial Regulation of Consumer Arbitration Agreements*, 2001 J. DISP. RESOL. 89, 90 (2001) (discussing the economic benefits of ADR over judicial oversight for both businesses and individuals).

96. UDRP Policy, *supra* note 89, at ¶ 4.

97. Pursuit under the Anticybersquatting Consumer Protection Act permits the award of damages in addition to equitable remedies. *See* Pub. L. 106-113, Div. B, § 1000(a)(9) [Title III, § 3002(a)], 113 Stat. 1536, 1501A-545 (effective Nov. 29, 1999) (codified at 15 U.S.C. § 1125(d)).

98. The proposed § 512(c)(4)(A) (hereinafter "512(c)(4)(A)-Proposal") reads as follows (additions in italics):

> *(4) In general. Notwithstanding the exclusion from remedies against a service provider that meets the qualifications of this subsection, a right-of-action for restitution shall be available,*
>
> *(A) in administrative courts, which,*
>
> *(i) will be vested with the exclusive power of original jurisdiction; and*
>
> *(ii) will not hear ancillary causes of action in conjunction with the action for restitution;*
>
> …

99. The proposed § 512(c)(1)(D) (hereinafter "512(c)(1)(D)-Proposal") reads as follows (additions in italics):

> (1) In general. A service provider shall not be liable…if the service provider…
>
> …
>
> *(D) voluntarily submits to and complies with administrative proceedings for the award of restitution upon a complainant's service of the appropriate summons.*

100. The proposed § 512(c)(2) (hereinafter "512(c)(2)-Proposal") reads as follows (additions in italics):

> (2) Designated agent. The limitations on liability established in this subsection apply to a service provider only if the service provider has designated an agent to receive notifications of claimed infringement described in paragraph (3) *and summonses for Harbor Actions described in paragraph (4),* by making available through its service….

101. *See* UDRP Policy, *supra* note 89, at ¶ 5.

102. Liability is found when (i) the domain name is identical or confusingly similar to a trademark or service mark in which the complainant has rights; and (ii) the registrant has no rights or legitimate interests in respect of the domain name; and (iii) the domain name has been registered and is being used in bad faith.

    See UDRP Policy, *supra* note 89, at ¶ 4. *See, e.g.*, Wal-Mart Stores, Inc. v. wallmartcanadasucks.com, WIPO Case No. D2000-1104, 2 (Nov. 23, 2000) (Perritt, Arb.).

103. Researchers at the Max-Planck-Institute studied 700 early UDRP decisions. In over 78% of these cases, proceedings resulted in the transfer or cancellation of the domain name. In over 54% of these cases, they determined that the complainant's mark and the accused domain name were identical. Moreover, in 71% of these cases, they found that the respondent made no claim to a property right in the accused domain name. *See generally* Annette Kur, UDRP, A Study by the Max-Planck-Institute for Foreign and International Patent, Copyright and Competition Law, Munich and Institute for Intellectual Property Law and Market Law, University of Stockholm, Institute for Information Law, Technical University

of Karlsruhe, at http://www.zar.kit.edu/DATA/projekte/udrp_705937a.pdf.

104. The proposed § 512(c)(4)(B)(i) (hereinafter "512(c)(4)(B)(i)-Proposal") reads as follows (additions in italics):

(4) In general. Notwithstanding the exclusion from remedies against a service provider that meets the qualifications of this subsection, a right-of-action for restitution shall be available,

. . .

(B) where evidentiary rules mandate that:

(i) claimants stipulate that the defendant satisfies all provisions of § 512(c)(1)–(3), excluding § 512(c)(1)(D), with regard to the facts upon which all claims for restitution under this subsection are brought; and

. . . .

105. The proposed § 512(c)(4)(B)(ii) (hereinafter "512(c)(1)(B)(ii)-Proposal") reads as follows (additions in italics):

(4) In general. Notwithstanding the exclusion from remedies against a service provider that meets the qualifications of this subsection, a right-of-action for restitution shall be available,

. . .

(B) where evidentiary rules mandate that:

. . .

(ii) complainant be able to prove a prima facie case upon proof that

(I) the complainant owns the registered copyright;

(II) the subject of the copyright was disseminated without authorization; and

(III) the respondent administered the service during the period of unlawful dissemination.

106. *See, e.g.*, YouTube, Analytics, http://support.google.com/youtube/bin/static.py?hl=en&guide=1714169&page=guide.cs (last visited Oct. 10, 2012). YouTube's analytic tools make accessible impression-based reports that capture data about total views and calculate CPMs and gross revenues. *Id.*

107. *But see* Telstra Corporation Limited v. Nuclear Marshmallows, Case No. D2000-0003, 5 (Feb. 18, 2000) (Christie, Arb.) (inferring bad faith without direct evidence).

108. *See* UDRP Policy, *supra* note 89, at ¶ 3.

109. The proposed § 512(c)(4)(C) (hereinafter "512(c)(4)(C)-Proposal") reads as follows (additions in italics):

(4) In general. Notwithstanding the exclusion from remedies against a service provider that meets the qualifications of this subsection, a right-of-action for restitution shall be available,

. . .

(C) based upon a presumptive restitution award to be calculated by finding the product of:

(i) the per-stream statutory restitution rate as set by the Copyright Royalty Board,

(I) both petitioner and respondent shall be given limited opportunity to rebut the presumptive statutory rate used for the calculation of restitution; and

(ii) the total number of unauthorized disseminations of an infringing work.

110. *See* 512(c)(4)(C)-Proposal, *supra* note 109.

111. Restatement, *supra* note 87, at § 3 cmt. a.

112. Restatement, *supra* note 87, at § 51(4).

113. Restatement, *supra* note 87, at § 51(3)(b).

114. *See supra* note 82 and accompanying text.

115. Proof of innocent-wrongdoer status—instead of conscious-wrongdoer status—may be available as an affirmative defense to mitigate part of the per-stream restitution rate. *See* 512(c)(4)(C)(i)-Proposal, *supra* note 109, at § (i)(I). The innocent-wrongdoer status calls for a restitution award that is less than the complete reallocation of profits. *See* Restatement, *supra* note 87, at § 3 cmt. a.

116. Judges may consider "any form of use, value, proceeds, or consequential gains…that is identifiable and measurable and not unduly remote." *See* Restatement, *supra* note 87, at § 51(5)(a).

117. Definition of "CPM," MarketingTerms, version 2, http:// www.marketingterms.com/dictionary/cpm/.

118. *See generally* Restatement, *supra* note 87, at § 42 cmt. h. (discussing how intellectual property restitution strips the wrongdoer of no more than the "net gain *attributable to the wrong*" (emphasis added), because greater action would be punitive).

119. *See, e.g.*, Rogers v. Koons, 960 F.2d 301, 313 (2d Cir. 1992) (severing a sculptor's profit resulting from his infringement of another work from the profit that resulted from his own work).

120. *See* 17 U.S.C. § 115 (2006).

121. *See generally*, Frederick F. Greenman Jr. & Alvin Deutsch, *The Copyright Royalty Tribunal and the Statutory Mechanical Royalty*, 1 Cardozo Arts & Ent. L. J. 1, 13 (1982).

122. Between 1976 and 1997, the USPTO issued 1,913,826 utility patents, while between 1998 and 2011, it issued 2,221,756 utility patents. 2011 U.S. Patent Statistics, United States Patent and Trademark Office, http://www.uspto.gov/ (follow "Patents—Statistics" hyperlink; then follow "General Patent Statistics" hyperlink; then follow "Calendar Year Patent Statistics" hyperlink; then follow "By Type of Patent Document (general overview reports)" hyperlink; then follow "pdf" hyperlink next to "2011 (05/22/2012 update)"). Moreover, the Intel Core i7 (2012) microprocessor improved upon the Intel Pentium II (1997) by adding about 1.39 billion transistors while increasing processing speed by roughly 3,400 MHz. *See generally* Intel, http://www.intel.com (last visited Oct. 10, 2012). This increase dwarfs the prior expansion of the Intel Pentium II (1997) upon the Intel 8050 (1977), which gained only 7.49 million transistors while increasing processing speed by roughly 297 MHz. *See generally id*.

123. *Id.* at § 512(c)(1)(B).

124. This note aggregates all statutory changes proposed by this article as applied to the complete text of 17 U.S.C. § 512(c). *See* 512(c)(1)(B)-Proposal, *supra* note 62; 512(c)(4)(A)-Proposal, *supra* note 98; 512(c)(1)(D)-Proposal, *supra* note 99; 512(c)(2)-Proposal, *supra* note 100; 512(c)(4)(B)(i)-Proposal, *supra* note 104; 512(c)(1)(B)(ii)-Proposal, *supra* note 105; 512(c)(4)(C)-Proposal, *supra* note 109. It reads as follows (additions and alterations in italics):

(c) Information Residing on Systems or Networks At Direction of Users.—

(1) In general.— A service provider shall not be liable for monetary relief, or, except as provided in subsection (j), for injunctive or other equitable relief, 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, if the service provider—

(A)(i) does not have actual knowledge that the material or an activity using the material on the system or network is infringing;

(ii) in the absence of such actual knowledge, is not aware of facts or circumstances from which infringing activity is apparent; or

(iii) upon obtaining such knowledge or awareness, acts expeditiously to remove, or disable access to, the material;

(B) *does not take active steps to encourage direct infringement;*

(i) Where a service provider does take active steps to encourage direct infringement, the following factors shall be considered in determining amenability to suit:

(I) proactive attempts to solicit the market of a former infringing service;

(II) the failure to develop tools to screen infringing content; and

(III) the financial benefit directly attributable to the infringing activity; and

(C) upon notification of claimed infringement as described in paragraph (3), responds expeditiously to remove, or disable access to, the material that is claimed to be infringing or to be the subject of infringing activity.

(D) voluntarily submits to and complies with administrative proceedings for the award of restitution upon a complainant's service of the appropriate summons.

(2) Designated agent.— The limitations on liability established in this subsection apply to a service provider only if the service provider has designated an agent to receive notifications of claimed infringement described in paragraph (3) *and summonses for Harbor Actions as in paragraph (4)*, by making available through its service, including on its website in a location accessible to the public, and by providing to the Copyright Office, substantially the following information:

(A) the name, address, phone number, and electronic mail address of the agent.

(B) other contact information which the Register of Copyrights may deem appropriate. The Register of Copyrights shall maintain a current directory of agents available to the public for inspection, including through the Internet, and may require payment of a fee by service providers to cover the costs of maintaining the directory.

(3) Elements of notification.—

(A) To be effective under this subsection, a notification of claimed infringement must be a written communication provided to the designated agent of a service provider that includes substantially the following:

(i) A physical or electronic signature of a person authorized to act on behalf of the owner of an exclusive right that is allegedly infringed.

(ii) Identification of the copyrighted work claimed to have been infringed, or, if multiple copyrighted works at a single online site are covered by a single notification, a representative list of such works at that site.

(iii) Identification of the material that is claimed to be infringing or to be the subject of infringing activity and that is to be removed or access to which is to be disabled, and information reasonably sufficient to permit the service provider to locate the material.

(iv) Information reasonably sufficient to permit the service provider to contact the complaining party, such as an address, telephone number, and, if available, an electronic mail address at which the complaining party may be contacted.

(v) A statement that the complaining party has a good faith belief that use of the material in the manner complained of is not authorized by the copyright owner, its agent, or the law.

(vi) A statement that the information in the notification is accurate, and under penalty of perjury, that the complaining party is authorized to act on behalf of the owner of an exclusive right that is allegedly infringed.

(B)(i) Subject to clause (ii), a notification from a copyright owner or from a person authorized to act on behalf of the copyright owner that fails to comply substantially with the provisions of subparagraph (A) shall not be considered under paragraph (1)(A) in determining whether a service provider has actual knowledge or is aware of facts or circumstances from which infringing activity is apparent.

(ii) In a case in which the notification that is provided to the service provider's designated agent fails to comply substantially with all the provisions of subparagraph (A) but substantially complies with clauses (ii), (iii), and (iv) of subparagraph (A), clause (i) of this subparagraph applies only if the service provider promptly attempts to contact the person making the notification or takes other reasonable steps to assist in the receipt of notification that substantially complies with all the provisions of subparagraph (A).

(4) In general. Notwithstanding the exclusion from remedies against a service provider that meets the qualifications of this subsection, a right-of-action for restitution shall be available,

(A) in administrative courts, which:

(i) shall be vested with the exclusive power of original jurisdiction; and

(ii) shall not hear ancillary causes of action in conjunction with the action for restitution;

(B) where evidentiary rules mandate that:

(i) claimants stipulate that the defendant satisfies all provisions of § 512(c)(1)-(3), excluding § 512(c)(1)(D), with regard to the facts upon which all claims for restitution under this subsection are brought; and

(ii) complainant be able to prove a prima facie case upon proof that

(I) the complainant owns the registered copyright;

(II) the subject of the copyright was disseminated without authorization; and

(III) the respondent administered the service during the period of unlawful dissemination.

(C) based upon a presumptive restitution award to be calculated by finding the product of:

(i) the per-stream statutory restitution rate as set by the Copyright Royalty Board,

(I) both petitioner and respondent shall be given limited opportunity to rebut the presumptive statutory rate used for the calculation of restitution; and

(ii) the total number of unauthorized disseminations of an infringing work.

Matthew Yogg earned his J.D. Candidate in May from St. John's University School of Law and his B.A. in Music from Boston College in 2008. Matthew would like to thank and dedicate this article to his faculty advisor, Joseph R. Gagliano, Jr., who passed away on May 19th. Professor Gagliano's guidance, insight, and encouragement were instrumental to the author's successful completion of this work. He will be sorely missed by Matthew and the St. John's University School of Law community.

Will the U.S. Supreme Court Provide Insight to Nazi-Era Looted Art Disputes?

By Leila Amineddoleh

After seven years of contentious litigation, the battle over an Egon Schiele drawing entitled "Seated Woman With Bent Left Leg" (Seated Woman) may continue if the United States Supreme Court grants a writ to hear the case, *Bakalar v. Vavra*. If granted, this will be the first time in nearly a decade that the nation's highest court will hear a case related to Nazi-era looted art.[1]

The claimants, heirs of a Holocaust victim, are requesting Supreme Court review under the theory that the Egon Schiele sketch central to this controversy was an art object looted by the Nazis. The claimants in *Bakalar* assert that prior to World War II, the drawing belonged to Viennese cabaret singer and art collector Fritz Grunbaum. (This assertion was disputed during trial by the current owner, David Bakalar.) Grunbaum was arrested in 1938, after which time the Nazis permitted an Austrian shipping company to export Grunbaum's extensive art collection. It is not known whether "Seated Woman" was among the 420 pieces taken. In 1941, Grunbaum died in the Dachau concentration camp. The following year, Grunbaum's wife, Elisabeth, died in Munich. For years, objects in Grunbaum's collection could not be traced; however, "Seated Woman" reappeared in 1956 when it was acquired by Eberhard Kornfeld. Kornfeld, a partner in the Swiss gallery Gutekunst & Klipstein, claimed that he purchased the work from Elisabeth's sister, Grunbaum's sister-in-law Mathilde Lukacs. The work was eventually sold to New York gallery owner Otto Kallir, who then sold it to Boston philanthropist David Bakalar in November 1963. Bakalar had this work in his collection for over four decades. In 2005, Bakalar sold the drawing at Sotheby's in London. Shortly afterwards, Fritz Grunbaum's heirs (New York resident Leon Fischer and Czech citizen Milos Vavra) informed Sotheby's of their claim that the drawing was rightfully theirs because it was stolen by the Nazis. Sotheby's reacted by voiding the sale and notifying Bakalar that his ownership was disputed.

Bakalar filed for declaratory judgment in New York district court to assert that as a *bona fide* purchaser, he was the rightful owner of the Schiele drawing. The heirs counterclaimed, asserting that under New York law, even a good faith purchaser cannot acquire good title to a stolen work. The general rule is *nemo dat quod non habet*[2] (no one can give what one does not have). However, there are exceptions that allow good faith purchasers to obtain title to improperly acquired works. These exceptions include equitable estoppel, a defense that prevents a person from asserting rights that would cause fraud and injustice.

In *Bakalar*, the district court ruled in favor of Bakalar, the good faith purchaser, based on the affirmative defensive of "laches." While New York law generally favors the rights of the original owners over the rights of good faith purchasers of stolen property, the laches defense tempers this favoritism and provides a measure of balance so that good faith purchasers can protect their title against stale claims. Laches is an equitable doctrine. In order to successfully assert it, one must prove that the claimant inexcusably delayed in taking action and that the defending party was prejudiced due to the delay.[3] Bakalar's attorneys asserted that the heirs' delay in bringing suit prejudiced the collector. In response, the heirs asserted that they could not have filed suit earlier because they were unaware of their claim to the drawing. They also argued that laches placed excessive difficulty on them, and that the burden should be shifted onto the buyer to demonstrate that he exercised the proper due diligence in acquiring the work. The claimants argued that Bakalar should have further investigated the drawing's provenance in light of the fact that Schiele was a popular artist amongst Jewish collectors, and that many of Schiele's works were seized by the Nazis. They claimed that the burden of laches is unreasonable, particularly for heirs of Holocaust victims who must grapple with the tragedy of their families' pasts.

The district court held that Grunbuam had most likely owned the sketch at some point in time, but that the work was not looted by the Nazis. Rather, the court found that the work had stayed within the family, as it was sold by Grunbaum's sister-in-law after the end of World War II. The court also ruled that Grunbaum's heirs "were aware of—or should have been aware of—their potential intestate rights to Grunbaum property," and that their ancestors "were not diligent in pursuing their claims to the drawing." The delay in making a claim against now-deceased Lukacs (Grunbaum's sister-in-law) allowed critical evidence to disappear, which unduly prejudiced Bakalar. The Second Circuit Court of Appeals affirmed the district court's decision in October 2012.

However, Grunbaum's heirs are still fervently pursuing their ownership claim. Raymond Dowd, counsel for the heirs, asserts that the district court and appellate court incorrectly decided this case due to Due Process Clause violations. He argues that the heirs were never given notice of their inheritance rights, and were unaware of their potential ownership claims. The heirs are appealing to the U.S. Supreme Court to hear this matter, with the central issue being whether a federal court can impute knowledge of "potential intestate rights" to deceased Jewish owners to strip heirs of their property rights. On March 28, 2013, Petitioners Milos Vavra and Leon Fischer submitted three questions to the Supreme Court: (1) Does the Due Process Clause of the 14th Amendment require the U.S. federal court to apply the forum's issues preclusion rules when hearing a foreign judicial act? (2) Does the application of a local law applied to rights vested under a foreign law and the disregard for the local choice of law and state's interest which result in a forfeiture…constitute arbitrary and unfair violation of the Due Process Clause of the 14th Amendment? and (3) May a federal court use the Declaratory Judgment Act (28 U.S.C. § 2201) to interpret state law in a manner forbidden by the National Stolen Property Act (28 U.S.C. § 2314)?

Art lawyers, heirs to Holocaust victims, collectors, and dealers are all closely watching this case, as the Supreme Court's decision will provide insight into laches determinations and the imputation of knowledge of intestate rights.

Endnotes

1. *See Republic of Austria v. Altmann*, 541 U.S. 677 (2004) (holding by the United States Supreme Court that the Foreign Sovereign Immunities Act applies retroactively, resulting in the plaintiff's ability to haul the Austrian government into U.S. federal district court for the recovery of a painting stolen by the Nazis and housed in an Austrian government museum. The parties involved agreed to arbitrate the matter, and a determination was made in favor of the plaintiff, resulting in the return of the painting to the heir of the original owner. The painting was sold by the heir for $135 million in June 2006 and now hangs in the Nueu Galerie in New York City.).
2. Deborah A. DeMott, *Artful Good Faith: An Essay on Law, Custom, and Intermediaries in Art Markets*, 62 Duke L. J. 607-643 (2012).
3. Alexandra Minkovich, *The Successful Use of Laches in World War-II Era Art Theft Disputes: It's Only a Matter of Time*, 27 Colum. J.L. & Arts 349, 361 (2004).

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The "Suite" Smell of Success: A Potential Change to Chinese Law and Its Impact on the U.S. Art Market

By Amber J. Slattery

Droit de suite laws entitle artists to a portion of the profits from every sale of their works subsequent to the initial sales. They are also known as Artist Resale Royalty laws, and require purchasers of a piece of artwork to make a payment to the original artist. Without such laws, artists do not continue to profit from their art, even when the works significantly appreciate in value. Thus, droit de suite laws enable an artist and his or her heirs to profit from appreciation in his or her work even after title has passed to a buyer, for a period of 70 years following an artist's death.[1]

The practical effect of droit de suite laws is to raise the price of artworks, frustrating the seller and surprising the buyer. The financial implications for the buyers and sellers in such transactions should be made clear to the participants and, if possible, be avoided.

China is considering adopting droit de suite laws with the intent of increasing regulation of the art market.[2] Chinese legislators hope that publicly recording artwork will make it easier to spot when forged art enters the market. Those who object to the proposed law fear it will stifle international art commerce, which has become big business in recent years.

China's interest in droit de suite is likely spurred by the country's contemporary art market, which was until only recently the strongest art market in the world.[3] The international art market has seen an overall boom in recent years, but in no place so heavily as contemporary Asian art.[4] Many sales in the Chinese art market take place via public auction, at international auction houses such as Sotheby's and Christie's.[5]

The 2013 season saw a downturn in China's art market.[6] Additional laws adverse to Chinese market success could suppress the sensitive market even further, eventually rendering it nothing more than a bubble. In a culture of instability, art buyers and sellers must make these costly decisions even more carefully.

As art investment grows in popularity, practitioners who usually have no relationship with the art market should be cognizant of the potential financial implications of dealing with droit de suite countries. Selecting the country in which to engage in an artwork transaction can have significant effects on the ultimate cost of the endeavor, and ultimately can alter the likelihood of a successful transaction. Thus a basic understanding of the droit de suite and tax implications in the major art markets—China, the United Kingdom (UK), the European Union (EU), and the United States—is required.

I. Droit de Suite: A Private Tax on Art Purchasers

The imposition of a droit de suite fine is considered a royalty. Royalties share many traits in common with taxes. A royalty is a payment for use of property, paid by the user to the legal owner.[7] The amount is usually a percentage of revenues obtained through use, or in the case of artwork, a percentage of the selling price. Droit de suite laws elsewhere typically impose a 1% to 5% cut.[8] Typically, items that sell for under a certain threshold amount are not subject to droit de suite. In the European Union, this threshold is €1,000.

A royalty differs from a tax because of who is doing the imposing. Taxes are levied by all levels of government: federal, state, or local. In contrast, royalties are levied by the owner upon any party who desires use of the owner's private property. Royalties are common in the music industry and other industries that involve licensing.

The cost of droit de suite laws ultimately falls on the purchaser. Sotheby's auction manual explains that when lots are subject to Artist Resale Rights, that charge will be added to the purchaser's invoice.[9]

The added cost has an implicit effect on the behavior of sellers. Sellers benefit from selling in non-droit de suite countries because the ultimate price remains lower, making it easier to find a willing buyer.

II. Effects of Droit de Suite: Public Sales Go Private and Little Money Goes to Artists

Droit de suite laws gained initial popularity in France in the 1920s, when works by famous artists were being resold for high multiples of the initial selling price. The artists, many of whom were still living, were unable to financially benefit from the significant appreciation of their works. Therefore, the laws were created to funnel a portion of these large sums back to the individuals who were responsible for their creation in the first place.

The laws drive art to private sales rather than auctions. Many countries' droit de suite laws only apply to public sales, thus only sales at auction houses are affected. Sales through private dealers are not subject to the royalty.

Additionally, the royalty is difficult to enforce and inefficient because of the complexity in the collection process.[10] Collection agencies hired to oversee the procurement and dispersal of the royalties can take up to 25% of the money before it reaches the artist.[11]

III. The United States Draws a Firm Line Against Droit de Suite

The United States does not have droit de suite laws, thus making the U.S. a preferable jurisdiction for artwork sales. The Equality for Visual Artists Act was proposed to install such legislation in 2011, but failed.[12] The bill would have required large auction houses to pay a 7% royalty whenever selling a work for over the price of $10,000.[13]

California had its own version of droit de suite with its Resale Royalties Act,[14] which was struck down as unconstitutional May 2012.[15] The United States District Court for the Central District of California held that the Resale Royalties Act served as an attempt by a state to control commerce outside of its borders, thereby violating the Commerce Clause.[16]

The law extended to claims by artists' family members 20 years after the artists' deaths, but excluded artworks that sold for under $1,000.[17] The law imposed a royalty on transactions occurring in any state when the seller resided in California, regardless of where the artist lived or where the transaction took place.[18] As the court noted, a sale in a New York auction house, selling a New York artist's work to a New York resident would be subject to the royalty if the seller were a California resident.[19] The court ultimately held that the entire statute should fail, solidifying California's end of the droit de suite law in the United States.[20]

IV. International Popularity of Droit de Suite and the Value Added Tax

Despite the absence of U.S. droit de suite laws, the laws are commonplace internationally. Droit de suite was established in the EU in 2001 with the Resale Rights Directive, which all EU countries were mandated to accept by 2010.[21] The UK implemented the resale right in 2006 and expanded its provisions in 2012.[22]

Most droit de suite laws operate differently from California's former royalty provision. Whereas California's law was imposed on any transaction where the seller was from California, droit de suite laws usually only look to the country where the sale takes place. Thus the location of the auction house is critical in assessing whether a droit de suite will be imposed.

The country in which the auction takes place also determines whether a Value Added Tax (VAT) will be assessed. A VAT is a government-imposed tax that ultimately acts as an additional sales tax. In countries with a VAT, an additional tax is levied for each instance that a new individual purchases a good in the supply chain of sale. Essentially, VAT imposes a new tax on every middleman.

VAT is imposed in France, China, and the UK, the three other major art markets other than the U.S.[23] The United States has no VAT. As such, auction sales occurring in the United States are unencumbered by the extra fee.

Both buyers and sellers can be subject to VAT. Christie's notes that it may pass on the VAT to the seller by adding to the commission rates,[24] or to the buyer by adding to the hammer price and buyer's premium.[25] International auction houses pay a different VAT rate depending on at which office the transaction takes place.

Whereas droit de suit obligations are imposed only at public auction sales and not at private sales, VAT is applied to both. Therefore, even a sale with a private dealer will still impose a fine that would not be assessed in a U.S. sales transaction.

In the EU and the UK, droit de suite is only collected on items with a hammer price over €1000.[26] The term "hammer price" refers to the final bid price, before other fees are assessed. The hammer price does not consider buyer's premium or VAT. Therefore, droit de suite royalty liability is assessed against the before-tax cost and does not consider additional fees the buyer must pay.

V. Other Taxes and Fees in Chinese Art Transactions

Persons interested in exploring China's art market should also be made aware of additional taxes and fees imposed on auction houses and galleries that will be passed on to the consumer. Dr. Clare McAndrew's comprehensive report on the Chinese art market elucidates some of the important tax considerations. Chinese auction houses pay a transaction tax of 5% on sales and pay the 3% income tax for the seller.[27] The 3% tax is levied against the hammer price of the artwork, minus its original value and "reasonable expenses."[28] The rate drops to 2% if the item is a 'returned Chinese cultural relic lost overseas' or works that are over 100 years old.[29] Presumably, these costs are absorbed by the buyer in the transaction.

McAndrew's findings also suggest that Chinese galleries are not a cost-effective consideration for foreign art market participants. Chinese galleries pass on a 17% VAT; however, galleries with annual incomes of under €100,000 may charge only 3% VAT. Chinese galleries have tended only to sell Chinese art, as until 2011, all imports were subject to a 30% tax.[30] Imports are now subject to a 17% VAT and a 6% import duty.[31] While the rate has decreased since 2011, it is still steep.

VI. Conclusion: Art Transactions Should Take Place in the United States

The imposition of droit de suite laws in China could shift a substantial amount of art sales out of China and to the only remaining art world powerhouse without VAT and droit de suite laws—the United States. China's already vulnerable market could take a nosedive with the passing of this potential legislation, creating a unique opportunity for international commerce to move to auction houses situated in the United States.

Those engaging in a public art transaction with a country that engages a droit de suite nation will need to recognize that a percentage of the cost goes toward paying the droit de suite royalty and a VAT. U.S. practitioners should advise international clients who have the option to conduct sales in a variety of locations that the sale should be conducted in a country that neither has droit de suite nor VAT, so that fewer profits will be lost. Both buyers and sellers would be wise to recognize the cost savings of engaging in art transactions in the United States. Those who must engage in public art sales abroad should consult the specific auction house rules to see who ultimately absorbs the cost of droit de suite and VAT provisions.

Endnotes

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5. *See* Colin Gleadall, *Art Sales: Will Chinese Market Lift Off or Freefall*, The Telegraph (Mar. 25, 2013 6:24 PM), http://www.telegraph.co.uk/culture/art/artsales/9953102/Art-sales-Will-Chinese-market-lift-off-or-freefall.html.
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7. *Royalty Definition*, Investopedia, http://www.investopedia.com/terms/r/royalty.asp.
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10. *See* Katreina Eden, *Fine Artists' Resale Royalty Right Should Be Enacted in the United States*, 18 N.Y. Int'l L. Rev. 121, 145 (2008).
11. *See* Samson Spanier, *Why Rule of 'Droit de Suite' Leaves Sour Taste for Some*, Financial Times (July 25, 2005), http://www.ft.com/intl/cms/s/0/4893da0a-fca8-11d9-8386-00000e2511c8.html#axzz2O7zRYrgT.
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18. Turner, *supra* note 12, at 340.
19. Motion, *supra* note 17.
20. *See id*.
21. *Directive 2001/84/EC of the European Parliament and of the Council of 27 September 2001 on the Resale Right for the Benefit of the Author of an Original Work of Art.*
22. *See Artists' Resale Rights—'Droit de Suite' Debate Heats Up*, Ikono (Jan. 12, 2012), http://ikono.org/2012/01/artists'-resale-rights-'droit-de-suite'-debate-heats-up/.
23. *See* Dr. Clare McAndrew, *The Global Art Market, with a Focus on China and Brazil*, TEFAF Art Market Report 2013, at 23 (noting countries that occupy strongest art market positions). *See id.* at 129 (identifying China as nation imposing VAT and defining standard rate as 17%). *See Introduction to VAT*, H.M. Revenue & Customs, http://www.hmrc.gov.uk/vat/start/introduction.htm (identifying U.K. as VAT nation and defining standard rate as 20%). *See International VAT Services*, TMF Group, http://www.tmf-vat.com/vat/eu-vat-rates.html (identifying France as VAT nation and identifying standard rate as 19.6%).
24. *Sellers Commission,* Christies, http://www.christies.com/features/guides/selling-guide/related-information/sellers-commission/.
25. *Droit de Suite*, Christie's, http://www.christies.com/home/features/guides/buying-guide/related-information/droit-de-suite/introduction (noting VAT rates that must be paid by buyer depending on auction house location).
26. *Sotheby's Catalog*, Evening Auction (June 29, 2011), *available at* http://www.sothebys.com/content/dam/sothebys/PDFs/cob/L11022-COS.pdf.
27. *See* McAndrew, *supra* note 23, at 119.
28. *See id.*
29. *See id.*
30. *See id.*
31. *Id.* at 129.

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TV 101

Fairly Fair Use

By Nima Daivari

Many attorneys fear making a fair use argument. The notion of admittedly and willfully infringing on a copyrighted work is more risk than many attorneys would like to take. That said, as advocates of the law, it is not only our job to take on the responsibilities of the law, but we and our clients and companies should be able to gain from the protections the law affords us as well.

Copyright law exists to protect content creators. The purpose of copyright, which is set forth in the U.S. Constitution, is to provide an incentive to creators by codifying law that helps *"…promote the Progress of Science and useful Arts.…"*[1]

In order to promote the progress of the arts, copyright law grants incentive to art creators by granting the creators certain protections for their ideas that are in fixed, tangible form. Such rights include the exclusive right to the following:

(1) to reproduce the copyrighted work in copies or phonorecords;

(2) to prepare derivative works based upon the copyrighted work;

(3) to distribute copies or phonorecords of the copyrighted work to the public by sale or another transfer of ownership…;

(4) …to perform the copyrighted work publicly;

(5) …to display the copyrighted work publicly; and

(6) in the case of sound recordings, to perform the copyrighted work publicly by means of a digital audio transmission.

At first blush these exclusive rights make complete sense. If the promotion of art is the purpose of copyright law, then certainly by granting creators certain exclusive rights, the law is encouraging them to continue to create with the knowledge that their creative endeavors are protected and have value.

Yet further analysis begs the question: if the purpose of copyright law is to promote the creation of more art, then does not granting a monopoly over the created art in many ways hinder the development of further art?

The answer is yes, copyright law can actually hinder further art creation. That is why the courts have found[2] fair use to be a defense to copyright infringement.

17 USC 107 states that…"the fair use of a copyrighted work, including such use by reproduction in copies or phonorecords or by any other means specified by that section, for purposes such as criticism, comment, news reporting, teaching (including multiple copies for classroom use), scholarship, or research, is not an infringement of copyright. In determining whether the use made of a work in any particular case is a fair use the factors to be considered shall include—

(1) the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes;

(2) the nature of the copyrighted work;

(3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and

(4) the effect of the use upon the potential market for or value of the copyrighted work.

There are many prominent fair use cases, including: *Harper & Row v. Nation Enterprises,*[3] *Campbell v. Acuff-Rose Music,*[4] *Dr. Seuss Enterprises v. Penguin Books,*[5] *Suntrust v. Houghton Mifflin Co.,*[6] *Kelly v. Arriba Soft Corporation,*[7] *Blanch v. Koons,*[8] and most recently the ongoing *Patrick Cariou v. Richard Prince.*[9]

The *Cariou* decision is an interesting read. As the case demonstrates, a fair use argument is incredibly fact sensitive, and thus a ruling can be very hard to anticipate. That said, as attorneys one of our many duties is to make difficult calls. We have to make a thoughtful analysis and then back up our analysis by pointing to legislation and case law. As attorneys, we have to be comfortable making these types of analyses instead of repeatedly seeking licenses for uses that do not require licensing.

In order to walk through some fair use analyses, below are a few recurring types of issues that arise in television production.

Criticism

This is one of easier analyses to make, because it falls under one of the clearest and most protected fair uses—criticism. For example, imagine a program entitled *Discussions with Daivari*. This exercise will review the four factors and come to a decision.

Purpose and Character of Use

Discussions with Daivari is a television program that reviews upcoming feature films. The purpose of using the copyrighted work (say, clips from the feature film being discussed) is to critique the film. Criticism of works is rooted in the First Amendment right to free speech and thus highly protectable. The intent behind the series is to generate revenue for its producers and exhibitors. It is a for-profit television series that airs on a for-profit network. While a non-profit use tends to be more defensible, a for-profit use is not dispositive of a fair use. As such, we should feel comfortable that this use passes the first factor.[10]

Nature of Copyrighted Work

The nature of the copyrighted work is a fictional, for-profit feature film. It is highly creative and neither contains factual information nor is there a need for the public to be informed about the contents of the film, as opposed to a situation like the one in *Time Inc. v. Bernard Geiss Associates*,[11] where the court found that the public interest in a video recording of the assassination of President John F. Kennedy outweighed Time Inc.'s copyright interest in the acquired footage. However, a strong copyright interest does not exempt the copyrighted work from a fair use argument.[12]

Amount and Substantiality

The last two factors, amount and substantiality and effect on the market place are the trickier two factors in this instance. The first, amount and substantiality, is the part where the largest margin of error can exist. If we look to *Harper* we can see that the substantiality of the material used matters just as much as the amount. In *Harper* fewer than 300 words were taken out of 500 pages. However, the words taken were of key interest. If *Discussions with Daivari* airs the twist ending for a film like *The Sixth Sense* or *Psycho*, it does not matter that only one minute out of 120 minutes (less than 1%) of the original copyrighted work was used, because it went to the "heart" of the work, and thusly affected the marketplace (discussed more in next step). It is the attorney's job to review the amount and substantiality of the source material used to ascertain if too much was used. When in doubt, err on the side of caution. One of the best ways to do this is to advise the production to revolve the discussion around material that is displayed in the feature film's trailer. If the studio released those story points or clips, it is safe to say that those clips do not get to the heart and soul of the work, lest the studio undercut the value of its own film.

Effect on Potential Market for Copyrighted Work

This factor looks to substitution in the marketplace, and not the effect of criticism. One would be hard-pressed to argue that a television show that airs one to two, non-key minutes of a feature film that is intended for exhibition in a movie theater displaces the market for the feature film.

We should be comfortable with this being a fair use.

News Reporting

The next style of show to look at is a fictitious entertainment news series, *Nima Nightly*.

Purpose and Character of Use

Nima Nightly features sit-down interviews with celebrities, follows them around as they go about their days, and discusses current events in Hollywood. The purpose of using the copyrighted work (say, trailers for upcoming television series, movie posters, and concert footage) is to break news and disseminate it to *Nima Nightly*'s viewers. Again, the purpose of the series is to generate revenue for its producers and exhibitors. It is a for-profit television series that airs on a for-profit network.

Nature of Copyrighted Work

The nature of the copyrighted work in this example can vary. It could be a book cover, a movie poster, audiovisual clips from a television series or film, or a litany of other copyrighted material. Nonetheless, even protected works are subject to fair use, lest we forget *Campbell*.

Amount and Substantiality

This factor can cause some issue with respect to static images like a book cover or film poster. By its nature, depicting a static image requires showing the image in its entirety unless it is cropped, covered, blurred, or in some other way manipulated. However, by not depicting the image that is being discussed one runs the risk of not making clear the subject matter at hand. Luckily, the freedom of the press is steeped in our First Amendment rights, and news reporting is generally considered a fair use. Again, it is the attorney's job to advise his or her client to balance the amount of copyrighted material shown with the amount necessary to depict what is being discussed.

Effect on Potential Market for Copyrighted Work

The same points that were established in the previous example can be made here. The likelihood that a news program would displace the marketplace for a book or a concert is slim.

Thus, when reporting on a newsworthy matter, we can feel comfortable that it is a fair use.

Teaching/Educational Use

The last example is a fictional educational video for non-profit use.

Nima's Neighbors is a not-for-profit television series that educates young children.

Purpose and Character of Use

Nima's Neighbors is a television program that attempts to teach young children basic life and education skills. The purpose of using the copyrighted work (say, the song *Happy Birthday*) is to teach young children early language and music skills. Nonprofit use and educational use are both strongly favored by the courts and public policy, which leads us to believe this factor has been met.

Nature of Copyrighted Work

Putting aside the dubious legal status of the song *Happy Birthday* and assuming that it is indeed a copyrighted work that is not yet in the public domain, the nature of the copyrighted work is a song. Music and lyrics are considered to be two separate copyrightable ideas. A song is protectable, which makes this factor less likely to be fulfilled.

Amount and Substantiality

The song consists of a mere four lines and is one of the first songs many children learn. Using anything less that the song in its entirety would defeat the purpose of teaching the child viewer the lyrics and tempo of the song. This factor might weigh the heaviest against a fair use, in that the entire copyrighted work is being exploited. However, looking to *Arriba*, one can see that the use can take the original work in its entirety but still be found to be fair.

Effect on Potential Market for Copyrighted Work

There is no risk in displacing the marketplace for the song *Happy Birthday* when depicting it in a television series. Certainly no one would believe that having heard the song once on *Nima's Neighbors* would stop others from seeking out the song. However, an argument could be made that a fair use finding displaces the marketplace for the revenue generated from license fees. If every use of *Happy Birthday* was found to be a fair use, then the rights holder to the song would not be able to generate revenue from the copyrighted work. Nonetheless, in this particular instance the totality of the circumstances (i.e., nonprofit use, educational use, minimal market displacement) leads to the conclusion that it is likely to be a fair use.

It is important to remember that the fair use factors are just that—factors. As is evidenced by the above and the cases listed, a fair use argument is highly fact sensitive and a thorough analysis must be made in each instance.

It is also important to remember that fair use is a *defense* to a copyright infringement claim. As stated at the beginning of the column, the use is indeed a willful infringement and fair use is merely a shield if a claim is filed. A good attorney will balance the necessity of making a fair use argument against the necessity of using the copyrighted material. Would blurring be appropriate? How about cropping the shot? Does the song really need to be played or will a sound-alike suffice? How litigious are the rights holders for the material one is looking to use? These are just some of the many questions to ask when making the analysis.

Endnotes

1. U.S. Const. art. I, §8, Cl. 8.
2. Gyles v. Wilcox, 26 E.R. 489, 490 (1740).
3. 471 U.S. 539 (1985).
4. 510 U.S. 569 (1994).
5. 109 F.3d 1394 (1997).
6. 252 F. 3d 1165 (11th Cir. 2001).
7. 280 F.3d 934 (9th Cir. 2002).
8. 467 F.3d 244 (2d Cir. 2006).
9. 2013 WL 1760521 (2d Cir. 2013). See pp. 17-20 of this issue for an analysis of the recent decision.
10. See *supra* notes 4, 6 and 7.
11. 293 F. Supp. 130 (S.D.N.Y. 1968).
12. See *supra* notes 4 and 7.

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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.

Babe Ruth: Sultan of Sweets

By David Krell

Baseball's treasure chest of lore rests on the achievements of standouts, those players that break records, win championships, and exemplify excellence. From Al Kaline to Zack Wheat and everyone in between, baseball's greatest players define, enhance, and, in some cases, revolutionize the National Pastime.

In the 1993 film *The Sandlot*, a great player's ghost advises Benny Rodriguez—the best of the sandlot players—"Remember, kid. There's heroes and there's legends. Heroes get remembered, but legends never die. Follow your heart, kid. And you'll never go wrong."

Heroes and legends. The baseball player fell into both categories

George Herman Ruth.

The Babe.

Beginning his career with the Boston Red Sox in 1914 as a pitcher, Babe Ruth found himself in a New York Yankees uniform for the 1920 season. The reason for the trade stemmed from Red Sox owner Harry Frazee's financial situation. Simply, he could not afford to keep Ruth on the Red Sox payroll because of debts due plus financial interests in the theatrical arena.

Baseball lore depicted Frazee as bargaining Ruth for money to invest in the Broadway musical *No, No, Nanette*. The story appeared logical. But it's only half true.

No, No, Nanette debuted on Broadway in 1925—five years after the trade to the Yankees. Its genesis, however, was another play that sourced Frazee's reasons for getting rid of Ruth. Waite Hoyt explained the details in an interview for the Baseball Hall of Fame. Hoyt was on the Boston Red Sox roster for the 1920 season.

> Before the season opened, we played an exhibition series with the New York Giants at the Polo Grounds. There was a notice posted on our bulletin board that we were invited to a theatrical performance, a light comedy, called *My Lady Friends*, that Harry Frazee was producing. There would be tickets at the box office.
>
> We went to the show, and it was quite amusing, very good. We enjoyed it a great deal. That show was put to music in 1924 and became *No, No, Nanette*…. If you trace it back, it was the sale of Babe Ruth that provided Harry Frazee with the $125,000 to produce that show.[1]

Ruth found a home in New York City, a metropolis where exploits appeared larger. In Ruth's case, the appearances were not deceiving. A 22-year career from 1914 to 1935 yielded a .342 batting average, 714 home runs, and 2873 hits.

His record of 714 home runs stood for nearly 40 years until Henry Aaron broke it in 1974. Aaron ended his career with 755 home runs. Barry Bonds ended his career in 2007 with 762 home runs, but the verdict is shaky regarding acceptance by baseball historians, scholars, and fans because of Bonds's controversies regarding steroid use.

In 1927, Ruth crashed 60 home runs. It was a feat that remained unreachable till Roger Maris hit 61 in 1961. Hank Greenberg came close in 1938 when he hit 58 home runs.

Ruth dominated the 1920s, a gust of fresh air after the Black Sox scandal of 1919 tarnished the game when eight players from the Chicago White Sox were accused of fixing the World Series so the Cincinnati Reds could win it. Though the players were acquitted, the black mark left on the game inspired the newly hired commissioner, Kenesaw Mountain Landis, to bar them from baseball for life. Ruth's success brought people back to the ballpark and inspired the nickname "The House That Ruth Built" for Yankee Stadium.

Ruth's exploits provided a new chapter for baseball and a much needed distraction. The 1920s matched him perfectly—a free-wheeling era in cities where speakeasies violated Prohibition. "In a time of venial sin in a city of venial sin, the man of magnified venial sin would become the Sultan of Swat, the Caliph of Clout, the Wizard of Whack, the Rajah of Rap, the Wazir of Wham, the Mammoth of Maul, the Maharajah of Mash, the Bambino. The Bam. The Big Bam."[2]

Babe Ruth found that the sweetness of success could turn bitter, though. When Ruth tried to register "Ruth's Home Run" and "George H. 'Babe' Ruth" as trademarks for candy in 1926, he struck out.

In *George H. Ruth Candy Co., Inc. v. Curtiss Candy Co.*,[3] the Court of Customs and Patent Appeals held that Curtiss Candy Company's "Baby Ruth" mark for candy bars trumped Babe Ruth's name because of prior use.

> Appellee sets up adoption and use, through predecessors in business, of the notation "Baby Ruth" as early as 1919, and use continually since said year, upon the same class of goods, viz., candy. Ownership of registration of said mark "Baby Ruth" for chocolate coated candy bars is also set up by appellee, said registration having been issued on May 27, 1924.[4]

The court addressed the trademark examiner's view of Babe Ruth's trademark rights regarding registration. The rights were strong, but not limitless—the trademark examiner had found that the name "George H. 'Babe' Ruth was registrable under the Trade-Mark Act of February 20, 1905 (15 USCA § 85) because it was written in a "particular or distinctive manner."[5]

The Commissioner of Patents, however, reversed the examiner's ruling because of the similarities between the words "Babe" and "Baby" despite Ruth's universal association with the former.

> The commissioner held that while the name "George H. Ruth," so written, would be registerable under said provision, the nickname "Babe" should not be regarded as a part of the name of the athlete George H. Ruth to the extent of permitting registration of it long years after another has used the quite similar word "Baby" in connection with the word "Ruth" as a mark for this common class of goods, and it was upon this ground that the decision of the examiner was reversed.[6]

So, Ruth's attempt at registering "Babe" was too late given the length of time enjoyed by the "Baby Ruth" mark in commerce. The court, however, avoided discussion of Ruth's underlying rights in using the "Babe" mark at all. It focused solely on the matter at hand—trademark registration.

> We would emphasize the fact that the proceeding before us is statutory, and the question of whether appellant has the right to use said mark is not before us. We simply hold, for the reason hereinbefore stated, that appellant's mark is not registerable under the provisions of said section 5.[7]

The court relied on testimony and the case of *J.B. Williams Co. v. Ernest W. Williams*[8] for its decision regarding confusion between the two marks. *Williams* involved men's grooming products.

> [A] mark "E.W. Williams," presented in the form of a facsimile signature, used upon an after-shaving cream or lotion, was likely to cause confusion with a registration of the word "Williams," used upon shaving soap and an after-shaving preparation prior to any use by the appellee, E.W. Williams, of his mark, and therefore its registration was barred by the first proviso of said section 5 (15 USCA § 85).[9]

Ruth, despite enormous name recognition concerning the "Babe" nickname, could not contravene the principles applied in *Williams* and the cornerstone of trademark law—likelihood of confusion.

> That confusion is likely between appellee's mark, "Baby Ruth," and appellant's mark, "Ruth's Home Run, George H. 'Babe' Ruth," is apparent. It is clear from the testimony that the connection of George H. Ruth with appellant was for the purpose of capitalizing his nickname "Babe" Ruth, used upon candy.[10]

Babe Ruth was an icon responsible for perpetuating the popularity of baseball in the 1920s by smashing home runs, setting records, and leading the Yankees to dominance.

Yet in the field of trademark law, Babe Ruth struck out.

Endnotes

1. Leigh Montville, The Big Bam: The Life and Times of Babe Ruth 102 (First Anchor Books (Broadway Books) (2006).
2. *Id*. at 107.
3. George H. Ruth Candy Co. v. Curtiss Candy Co., 49 F.2d 1033 (1931).
4. *Id.*
5. *Id*. at 1033-1034.
6. *Id.* at 1034.
7. *Id*. Section 5 of the Trade-Mark Act of February 20, 1905 (15 § 85) states: "Provided, That no mark which consists merely in the name of an individual, firm, corporation, or association, not written printed, impressed, or woven in some particular or distinctive manner or in association with a portrait of the individual or merely in words or devices which are descriptive of the goods with which they are used, or of the character or quality of such goods, or merely a geographical name or term, shall be registered under the terms of this Act." The section further states that a name can be registered: "Provided further, That nothing herein shall prevent the registration of a trade-mark otherwise registerable because of its being the name of the applicant or a portion thereof."
8. *Curtiss*, 48 F.2d at 398.
9. *Id*. at 1034.
10. *Id*.

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