NYSBA
FALL/WINTER 2013 | VOL. 24 | NO. 3

Entertainment, Arts and Sports Law Journal

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

Inside

WWW.NYSBA.ORG/EASL

Table of Contents

Remarks from the Chair

Change is in the air—and it is all good. While change is sometimes viewed as unpleasant—that is, until we gain familiarity with the new and appreciate its usefulness—it is inevitable. At EASL, I like to think of change more as evolution; not strictly survival of the fittest, but rather survival of what works best for the membership as a whole. So, while we continue to provide the things that work best (interesting and timely programs for our members, outstanding publications and an engaging blog, networking events, and the occasional social outing), we will begin to explore an entirely new way of communicating with each other through the New York State Bar Association's enhanced website. As a NYSBA Section, EASL will have its own social community pages where members will be able to interact with other members and the membership at large in real time, as well as access EASL's blog, calendar of events, and past *Journal* issues, all in one easy-to-navigate spot. I encourage each of you to take a look at the new site and post a comment with your thoughts about how we may best utilize our EASL online community.

"As a NYSBA Section, EASL will have its own social community pages where members will be able to interact with other members and the membership at large in real time, as well as access EASL's blog, calendar of events, and past Journal *issues, all in one easy-to-navigate spot."*

New to EASL this year will be its Attorney Directory, open to EASL members as well as NYSBA members, and created to provide a resource for artists seeking legal counsel in a variety of creative endeavors and everyday life situations (e.g., real property, landlord / tenant, estate planning, and business formation). Inspired by requests made to EASL Officer Carol Steinberg, who has long sought a way to provide artists a path to connect with attorneys sensitive to artists' needs, and spearheaded by Carol, Elissa Hecker, and Irina Tarsis, the Directory is a functional resource where artists may seek legal service providers. It should be noted that this is not a pro bono arrangement. Fees are set by the individual attorney as he or she would in the normal course of business.

Communicating the old-fashioned way (in person, face to face) at an EASL summer program was the order of the day, with the distinction of speakers and attendees speaking different languages. EASL was very fortunate to have the opportunity to present the fundamentals of several entertainment law disciplines to a delegation from China comprised of Chinese arts leaders. At the invitation of the New York Foundation for the Arts (NYFA), EASL Officer Carol Steinberg assembled a stellar panel of speakers to present an overview of how the entertainment business operates in the United States, particularly New York. The event was held at the NYFA offices in Brooklyn. The presentation was translated by three interpreters, each taking turns throughout the day, one of whom was EASL member Shannon Zhu. The full-day program began with an overview of not-for-profit and commercial theatre operations by Robert Freedman and Lesley Rosenthal. Lincoln Center was used as a model, illustrative of not-for-profit operations. James Klaiber discussed in some detail the different types of intellectual property recognized in the U.S. and how each relates to the entertainment industry. Tim DeBaets (a former EASL Chair) discussed the elements of bringing a foreign dance production to the U.S. and stressed the importance of effectively negotiating the contract with the promoter, as that agreement will dictate the deal throughout. Next up was Pamela Jones, who outlined how an idea becomes a television program. When discussing the pitching of a program to a network, Pamela referred to the typical "sizzle reel." This phrase challenged the translators, but humor prevailed, and the gist was well received. Last up were the team comprised of EASL Officer Diane Krausz and Jason Aylesworth, who summarized the division of rights and structure of income streams relating to authors of a theatrical musical (underlying rights holder, book writer, composer, lyricist). The hypothetical given was a musical, and Jason creatively involved the translators, assigning each a "role" in the scenario, which made the example somewhat more relatable for the audience. There was great communication, with some levity, and interesting follow-up dialogue as members of the delegation asked incisive questions of the speakers. Our sincere thanks go to Peter Cobb, Director of NYFA, for inviting EASL to participate, Carol Steinberg for coordinating the program, and Innes Smolansky for moderating.

As summer wound down, on August 22nd EASL members enjoyed an evening of minor league baseball with the Brooklyn Cyclones facing the Staten Island Yankees at MCU Park at Coney Island. EASL members received a baseball cap, commemorative jersey, and for each ticket purchased through EASL, a donation was made to the New York Bar Foundation for Sandy relief. Even though the home team lost, EASL members enjoyed a fun night out at the ballpark. Thanks go to former Membership Co-Chair Jessica Thaler and Executive Committee member Steve Richman for the inspiration, and Jessica, Ethan Bordman, and Rob Thony for the execution.

Continuing the sports theme, the Membership Committee also held its annual CLE program in September focusing on Arena and Stadium financing, construction, and operation, entitled *If You Build It, They Will Come*. The program was held at Herrick Feinstein LLP and offered a complement of experts in the field, including Jeffrey Gewirtz, Executive Vice President of Business Affairs and Chief Legal Officer, Brooklyn Nets and Barclays Center, and Mark Stefanacci, Vice President and General Counsel of MetLife Stadium. Moderators for the two panels, *Building It* and *When They Come*, were NYSBA Past-President Stephen P. Younger and Lesley Rosenthal.

In October, EASL again joined with CMJ to produce *The Entertainment Business Law Seminar at the CMJ Music Marathon*. The theme of the day-long program was *Ch Ch Ch Changes…Remain the Only Constant in Entertainment Business and Law*. Ten panels in all, the program included discussions on shifts in digital distribution and monetization models, changes in digital licensing practices, the evolving television landscape, breaches in the big data world, and critical developments in copyright case law and legislation. We welcomed Prof. Stephen Gillers to discuss Ethics: *The Law of Anyplace: Ethical Considerations of Lawyering Without Borders;* and David Israelite as the keynote speaker (see the EASL Blog for what transpired). Sincere thanks to EASL Executive Committee members Christine Pepe, Keenan Popwell, and Barry Skidelsky, and to our invaluable EASL Liaison, Beth Gould, for the extraordinary amount of time and effort they contributed toward this event, making it a great success.

We closed this year with our Fall Program on November 14th at Herrick Feinstein LLP. The CLE portion of this event was comprised of two panels, one focusing on Labor Law in Entertainment, and the other discussing Working With Guilds. Following the program, we held a cocktail reception in the firm's welcoming Library Room. The Fall Program marked the close of our 25th Anniversary Year, and we toasted to the future.

EASL's Future

Finding our future will now be easier than ever as EASL has formed a new Committee on Law Student Liaisons. This Committee will be devoted to increasing opportunities for law student involvement in EASL. The credit and thanks for this initiative go to Executive Committee member Jason Aylesworth, who, already an advocate of expanded avenues for law students, will Chair this Committee along with two law student Co-Chairs. All EASL law student members are welcome to join the Committee, and selected law students will act as liaisons to their respective schools. We are very appreciative for Jason's enthusiasm and efforts, and look forward to welcoming law students/future attorneys into the fold.

"We are in exciting times with technology reshaping the way we practice law. I am proud to say that EASL has often been at the forefront of new frontiers, all for the benefit of the Section and its members, and I am confident we will remain so as our bench is deep with dedicated leaders."

As the end of 2013 approaches, EASL also prepares for the customary changing of the guard. On February 2, 2014, Steve Rodner will become Chair of the EASL Section, Diane Krausz will become First Vice Chair, and I will become Immediate Past Chair. It has been a tremendous joy to work with Steve and Diane, EASL Officers Jason Baruch, Jay Kogan, Pamela Jones, and Carol Steinberg, and all of the talented, enthusiastic and devoted members of the EASL Executive Committee. I look back with thanks to my immediate predecessor, Judith Prowda, whose leadership has taught me much, and sincere appreciation to the past chairs of EASL, who, through their continued involvement in EASL, remain champions of the Section and innovators of its future.

We are in exciting times with technology reshaping the way we practice law. I am proud to say that EASL has often been at the forefront of new frontiers, all for the benefit of the Section and its members, and I am confident we will remain so as our bench is deep with dedicated leaders. I am grateful for having had the opportunity to serve as Chair, and I look forward to the terms of Steve Rodner and Diane Krausz.

Rosemarie Tully

Editor's Note

This issue is replete with articles pertaining to the practice areas of EASL Section members, including companion articles discussing crowdfunding and the JOBS Act, and the student athlete / NCAA / Electronic Arts issues. Enjoy the breadth of topics that are published herein.

While it is sad to see Rosemarie leave as her term as Chair ends, we look forward to her continuing and rewarding relationship with EASL in her new role as Immediate Past Chair. We welcome Steve Rodner as Chair and Diane Krausz as Vice-Chair. Their leadership and vision will continue EASL's forward thinking programs, panels and activities.

If you have not already obtained a copy, grab the hot-off-the-presses *In The Arena*, EASL's latest handbook focusing on issues that arise in Sports law. For more information or to order, please visit http: / / www.nysba.org / IntheArena.

Elissa

The next *EASL Journal* deadline is Friday, December 20, 2013

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

****

CORRECTIONS: The first sentence in the article "What Non-U.S. Athletes, Entertainers, and Agents Need to Know About U.S. Taxes and How to Reduce Them" from the Summer 2013 issue should have stated: "Boxing fans looking forward to Manny Pacquaio's fifth fight against Juan Manuel Marquez won't see it live in Las Vegas."

The fourth sentence under "Tax Residence" should have read as follows: "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 is 'effectively connected with the conduct of a U.S. trade or business'."

"Effectively connected with the conduct of a U.S. trade or business" refers to "income" rather than "non-U.S. sources." The usage is lifted from the Internal Revenue Code and Treasury Regulations and is regularly used and recognized by tax practitioners.

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

Law Student Initiative Writing Contest

Congratulations to the LSI winner:

Ashli Weiss, of the University of California, Hastings College of the Law,
for her article entitled:

"Proving Secondary Liability Against a Brokerage and Its Broker"

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, December 20, 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 & 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. Each designated faculty member shall forward all submissions to his / her Scholarship Committee Liaison. The Liaison, in turn, shall forward all papers received by him / her to the three (3) Committee Co-Chairs for distribution. The Committee will read the papers submitted and will select the Scholarship recipient(s).

Eligibility

The Competition is open to all students—*both J.D. candidates and L.L.M. candidates*—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 ten 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, *commencing January 1st of the year following submission of the paper.*

Yearly Deadlines

December 12th: Law School Faculty liaison submits *all papers she/he receives* 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 and, on a rotating basis, former EASL Chairs who are still active in the Section, 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 the EASL Web site. The Scholarship Committee also reserves the right to award only one Scholarship or no Scholarship if it determines, in any given year that, respectively, only one paper, or no paper is sufficiently meritorious. All rights of dissemination of the papers by each of EASL and BMI are non-exclusive.

Payment of Monies

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

About BMI

BMI is an American performing rights organization that represents approximately 600,000 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 more than 7.5 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 1976, NYSBA programs and activities have continuously served the public and improved the justice system for more than 125 years.

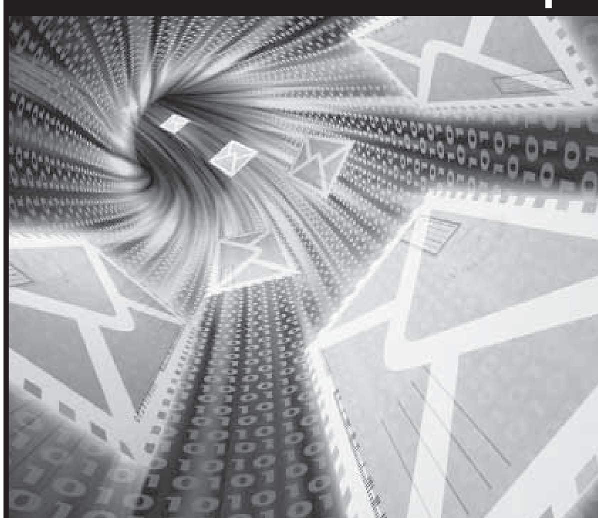
The more than 1,600 members of the Entertainment, Arts and Sports Law Section of the NYSBA represent varied interests, including headline stories, matters debated in Congress, and issues ruled upon by the courts today. The EASL Section provides substantive case law, forums for discussion, debate and information-sharing, pro bono opportunities, and access to unique resources including its popular 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 on board 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, Executive Director, Legal and Business Affairs, Performing Rights, BMI.

Request for Articles



If you have written an article you would like considered for publication, or have an idea for one, please contact *Entertainment, Arts and Sports Law Journal* Editor:

Elissa D. Hecker
Editor, *EASL Journal*
eheckeresq@eheckeresq.com

Articles should be submitted in electronic document format (pdfs are NOT acceptable), along with biographical information.

www.nysba.org/EASLJournal

NYSBA Guidelines for Obtaining MCLE Credit for Writing

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

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

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

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

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

Pro Bono Update

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

DO THE PUBLIC GOOD
VOLUNTEER FOR PRO BONO

Pro Bono Steering Committee

In July, the EASL and IP Sections co-sponsored a successful Pro Bono Clinic at the New York Foundation for the Arts (NYFA). Thank you to all of the following volunteers:

Tiffany R. Almy
Danielle R. Browne
Caroline Camp
Bob A. Celestin
Alex Diamond
Joshua Graubart
Robyn Guilliams
Zalika Headley
John Heim
Diane Krausz
Jason Lunardi
Madeleine M. Nichols
Michael K. O'Donnell
Uloma Onuma
Stephanie Ramirez
Jessica Ross
Bob Seidenberg
Brooke Smarsh
Justin Strock
Francisco Torres

Our next Pro Bono Clinic will be held on **Sunday, February 23, 2014 at the Gibney Dance Center in Manhattan**. All EASL and IP Section members will receive further information via email.

* * *

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

Clinics

Elissa D. Hecker and Kathy Kim coordinate walk-in legal clinics with various organizations.

- Elissa D. Hecker, eheckeresq@eheckeresq.com
- Kathy Kim, kathykimesq@gmail.com

Speakers Bureau

Carol Steinberg coordinates Speakers Bureau programs and events.

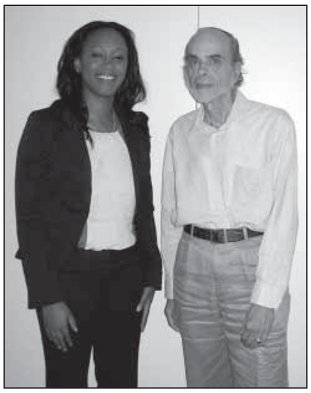
- Carol Steinberg, elizabethcjs@gmail.com

Litigations

Irina Tarsis coordinates 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.



Apple Guilty of E-Book Antitrust Conspiracy and Enjoined from Objectionable Conduct

By Joel L. Hecker

I previously wrote in the Summer 2012 issue of this *Journal*[1] that on April 11, 2012, the United States of America commenced a civil antitrust litigation in the United States District Court for the Southern District of New York against five of the six major book publishers in the United States as well as Apple, Inc.[2] I reported that the complaint alleged that the defendants conspired to raise the price of electronic books over a period of time in response to the practice by Amazon.com, Inc. (Amazon) of selling e-books for $9.99. Simultaneously with the filing, the plaintiff also filed a Stipulation of Settlement and Consent Decree[3] and Competitive Impact Statement[4] in connection with its settlement of the action with three of the five publishers.

I also previously wrote in the Fall / Winter 2012 issue of this *Journal*[5] that Judge Cote approved the e-book Antitrust Consent Decree after reviewing the evidence before her as well as 868 comments from the public which were timely submitted, and *amici curiae* replies by non-parties Barnes & Noble, American Booksellers Association, Inc., The Authors Guild, Inc., Bob Kohn and others. Her decision was dated September 5, 2012.[6]

Subsequent to such approval, the other two publishers also settled on the same terms and conditions and entered into similar Stipulations of Settlement and Consent Decrees. Apple resisted and instead opted to go to trial, apparently feeling confident of its innocence.

Apple's Trial

In July 2012, after a non-jury trial Judge Cote ruled against Apple finding that, after reviewing all of the evidence and witnesses' testimony, there was compelling evidence that Apple had indeed conspired with the named publishers in violation of the antitrust laws. The outcome of the trial was certainly not what Apple wanted.

Final Judgment and Permanent Injunction

As a result of having been found guilty of conspiracy in violation of the antitrust laws, District Judge Cote entered a judgment on September 5, 2013,[7] which provided new restrictions on Apple's agreements with publishers and the requirement that Apple be evaluated by an External Compliance Officer for two years. However, the judge did not accept all of the measures sought by the Justice Department, including rejecting an extensive government oversight of Apple's App Store.

Prohibited Apple Conduct

The final judgment prohibits Apple from enforcing any retail price Most Favored Nation Clause (MFN), from entering into any agreement with an e-book publisher relating to sale of e-books which contains a retail price MFN, from entering into or maintaining any agreement with any of the publisher defendants which restricts, limits or impedes Apple's ability to set, alter or reduce the retail price of an e-book or to offer price discounts or other forms of promotions to encourage consumers to purchase more e-books, and prohibits Apple from retaliating or punishing any e-book publisher for refusing to enter into an agreement with Apple relating to the sale of e-books. In addition, Apple cannot communicate to an e-book publisher the status of its contractual negotiations with any other e-book publisher concerning proposed contractual returns, business plans or other arrangements (Apple is permitted to develop a standard form contract to sell e-book publishers' e-books, provided that it does not violate the terms of the Consent Decree).

Required Apple Conduct

Apple is required to either modify its existing agency agreements with the publisher defendants to comply with the terms of the final judgment or terminate such agreements. It is also required to apply the same terms and conditions to the sale of an e-book app to Apple's App Store as Apple applies to all other apps sold or distributed through Apple's App Store.

Apple's Antitrust Compliance

To ensure compliance with the final judgment and the antitrust laws, Apple is required to have its Audit Committee or another committee comprised entirely of outside directors (not also employed by Apple) to designate a person not employed by Apple to serve as Antitrust Compliance Officer who will report back to the Audit or equivalent Committee, will be responsible on a full time basis until the expiration of the final judgment for supervising Apple's antitrust compliance efforts, including specific requirements and obligations set forth in the final judgment, and perform other enumerated duties.

External Compliance Monitor

The court will appoint an External Compliance Monitor, who will have the power and authority to review and evaluate Apple's existing internal antitrust compliance policies and procedures as well as a training program required to be put in place under the final judgment, and to recommend changes as necessary. The External Compliance Monitor's appointment is for a period of two years, which is extendable under certain enumerated circumstances. The judgment did provide that the parties are to meet and confer to determine if they can agree upon a recommended External Compliance Monitor, whom presumably the judge would approve.

Plaintiffs' Access to Apple's Records

For purposes of determining or securing compliance with the final judgment, from time to time duly authorized representatives of the Department of Justice and other specified representatives shall have the right to inspect Apple's accounting and other documents and records relating to matters contained in the final judgment, to interview Apple's officers, employees and agents regarding such matters, and to require Apple to submit written reports or respond to written interrogatories under oath relating to matters contained in the final judgment.

Additional Provisions

The final judgment is to take effect 30 days after the date it is entered. If the final judgment is stayed pending appeal, then all of the time periods will be tolled during the stay. In addition, the court has retained jurisdiction of the case to ensure compliance, and take such further acts as may be necessary to carry out or construe the terms and intent of the final judgment. The final judgment will expire on its own terms and without further action five years after its effective date provided that it can be extended if necessary.

Apple to Appeal Decision and Judgment

Apple has indicated in no uncertain terms that it believes the decision finding it guilty of price fixing and antitrust violations was erroneous and it therefore will appeal both the decision and the terms of the final judgment. The basic thrust of the appeal is Apple's continuing position that it gave customers more choice and injected innovation and competition into the marketplace rather than restricting and harming consumers.

Summary

The restrictions imposed upon Apple, including the appointment of an internal independent antitrust compliance officer and External Compliance Monitor, may seem harsh, but under the circumstances District Court Judge Cote clearly believes that Apple's conduct constitutes a clear and deliberate violation of the antitrust laws which directly and materially impacted in a negative way upon consumers in the e-book industry. It remains to be seen whether, on appeal, the decision is upheld, and if so whether the terms of the final judgment will be modified in any way. In any event, we clearly have not heard the last in this ongoing saga.

Endnotes

1. *See* Joel L. Hecker, *E-Book Antitrust Suits Against Apple and Book Publishers*, 23 N.Y. St. B.A. Ent., Arts and Sports Law J. 20 (2012).
2. USA v. Apple, Inc. No.12 Civ. 2826 (DLC), 2013 WL 3454986 (S.D.N.Y. July 10, 2013).
3. The Stipulation of Settlement and Proposed Consent Decree USA v. Apple, Inc. No.12 Civ. 2826 (DLC), 2013 WL 3454986 (S.D.N.Y. July 10, 2013) (the stipulation was filed as document 4 on April 11, 2012).
4. The Competitive Impact Statement, USA v. Apple, Inc. No.12 Civ. 2826 (DLC), 2013 WL 3454986 (S.D.N.Y. July 10, 2013) (the statement was filed pursuant to section 2(b) of the Antitrust Procedures and Penalties Act as document 5 on April 11, 2012).
5. *See* Joel L. Hecker, *Court Approves E-Book Antitrust Consent Decree Against Apple and Book Publishers*, 23 N.Y. St. B.A. Ent., Arts and Sports Law J. 15 (2012).
6. USA v. Apple, Inc.,, 889 F.Supp.2d 623 (S.D.N.Y. 2012).
7. USA v. Apple, Inc., Civil Action Nos. 1:12 CV 2826, 1:12 CV 3394, 2013 WL 4774755 (S.D.N.Y. Sept. 5, 2013) (Pursuant to the agreement of the parties and court order, the proceedings in the related companion case, *Texas et al v. Penguin Group (U.S.A.), Inc. et al*, Civ. A. NO. 1:12-CV-3394, brought by a total of 49 states and five territories seeking restitution to consumers for overcharges, damages and injunctive relief have been bifurcated and will be addressed in subsequent proceedings).

Joel L. Hecker, Of Counsel to Russo & Burke, 600 Third Avenue, New York, NY 10016, practices in every aspect of photography and visual arts law, copyright, licensing, publishing, contracts, privacy rights, trademark and other intellectual property issues, as well as real estate and estate planning matters. He acts as general counsel to the hundreds of professional photographers, stock photo agencies, graphic artists and other photography and content-related businesses he represents nationwide and abroad. He also lectures and writes extensively on issues of concern to these industries, including his web-based column You And The Law in *StockPhotoNotes*. He is past Chair and a member of the Copyright and Literary Property Committee of the Association of the Bar of the City of New York, a long-time member and past Trustee of the Copyright Society of the U.S.A., and a member of the EASL Section. He has also been designated as a New York Super Lawyer. He can be reached at (212) 557-9600, fax (212) 557-9610, website www.RussoandBurke.com, or via email: HeckerEsq@aol.com. Specific references to his articles and lectures may be located through Internet search engines under the keywords: "Joel L. Hecker" or at the Russo & Burke website.

Knoedler Obituary (1857–2011): Select Legal History of the Oldest American Art Gallery

By Irina Tarsis

> What we call the beginning is often the end.
> And to make an end is to make a beginning.
> The end is where we start from.
>
> **T. S. Eliot**

Every important art museum and private collection in the United States likely owns works of art that at one point or another, or more than once, sold through one of the oldest and finest American art galleries, Knoedler & Co. (the Gallery).[1] A tour through the annals of case law also uncovers many a Knoedler reference, from matters under review by the United States Tax Court[2] to illegal wiretapping[3] hearings, from the United States Customs Court citations[4] to nineteenth century unfair competition conflicts,[5] from World War II looted art[6] to Soviet nationalization title disputes,[7] from warranty breaches to racketeering and fraud.[8]

The rise and demise of the Gallery span three centuries. It was established by Michael Knoedler and members of a French firm Goupil, Vibert & Cie (later Boussod, Valadon & Cie) in 1848, well before the founding of the major museums in the United States.[9] In 1857, Michael Knoedler bought out the Gallery from his French partners and shifted from selling French Salon paintings to providing old master paintings to the American art market.[10] In 1971, the Gallery was acquired by Armand Hammer, a clever businessman and the founder of The Armand Hammer Museum of Art and Culture Center in California, who decades earlier brought valuables nationalized by the Soviets into the United States and sold books, paintings, jewels and much more in American department stores as well as antique shops.[11]

On November 11, 2011, the Gallery suddenly announced that it was shutting down and going out of business.[12] The apparent reason for closing this venerable institution was the sale of dozens of works falsely attributed to the high-ticket twentieth century artists such as Jackson Pollock, Mark Rothko, and Robert Motherwell.[13] The Gallery and its principals and agents were subsequently sued for fraud, racketeering, breach of contract, breach of the covenant of good faith and fair dealing, unjust enrichment and more.

Recognized for its significance in the field, parts of the Gallery's archives were purchased by the Getty Institute in 2012.[14] The archive contained letters written by the preeminent nineteenth and twentieth century collectors and artists, including Léon Bakst, Alexander Calder, Edgar Degas, Greta Garbo, Paul Gauguin, Sarah Bernhardt, Childe Hassam, Winslow Homer, Rockwell Kent, Henri Matisse, Irving Penn, Mark Rothko, John Singer Sargent, and Edward Steichen.

The Gallery had been in existence for more than 160 years and its demise was a sad chapter in the American art and business history. This article will explore select cases that map a footprint the Gallery left on the American legal history.

* * * Intervivos * * *

The first legal action on record involving the Gallery, in a role of a plaintiff, dates back to 1891. Michael Knoedler tried to stop the successor in interest to the French gallery from operating under the name he was using for his business. In 1887, three decades after he bought out the New York concern, new owners of the French gallery opened another storefront in New York City, operating under the name of "Goupil & Co., of Paris; Boussod, Valadon & Co., successors." The name was confusingly similar to that used by Knoedler, who has been doing business under the name of "Goupil & Co., M. Knoedler & Co., successors" since the 1850s. Nevertheless, the court held that the acts of the defendants did not "depreciate the value of the good-will of the concern bought by M. Knoedler in 1857," and that Knoedler did not acquire "the exclusive right to use the name of Goupil & Co. as a trade designation in [the United States]."[15] In 1893, the Second Circuit Court of Appeals affirmed the ruling denying Knoedler's request to enjoin the French art gallery from using the Goupil & Co. business name in New York and the United States.[16]

Next, in 1919, the Gallery protested assessment of import duties by the collector of customs at the Port of New York. In the case of *M. Knoedler & Co. v. United States*,[17] the court considered proper classification of a bronze statue produced by Auguste Rodin. There, a board of three assessors agreed that Rodin was a professional sculptor of high order and his sculpture, imported by Knoedler, was produced (carved, remodeled and improved) by the artist. Thus the court held that the bronze statue was an "original" and not subject to an *ad valorem* 15% fee as initially estimated. At the time the sculpture was valued at 12,000 francs.[18]

Some of the Gallery-affiliated sales from the 1930s and 1950s would instigate legal action decades later. For example, between 1997 and in 2000, the Gallery found itself a third party defendant to the dispute between the Seattle Art Museum (the Museum) and Elaine Rosenberg, heir of Paul Rosenberg, an important Jewish art dealer in Paris, whose collection was confiscated by the Nazis during World War II.[19] The facts of the dispute revealed that in 1954, the Gallery sold a 1928 Matisse painting, *Odalisque*, to Virginia and Prentice Bloedel, who bequeathed it to the Museum. The Museum took possession of the painting in 1991 and full ownership in 1996. Elaine Rosenberg sued the Museum to recover the painting, and the Museum impleaded the Gallery, alleging fraud and / or negligent misrepresentation at the time of the 1954 sale. The Gallery was able to get out of the dispute, with its costs reimbursed, by demonstrating that it was not a party to the Bloedel's bequest to the Museum.[20]

Ultimately, the Museum Board of Trustees decided to return *Odalisque* to the Rosenberg heirs in 1999, and following the return, the Museum and the Gallery reached an out-of-court agreement, whereby the Museum was able to choose "at least one painting from the inventory of the Knoedler gallery" and the Gallery waived its right to collect awarded attorney's fees.[21] The Director of the Gallery at the time, Ann Freedman, was quoted as saying, "If there's anything I would choose to emphasize, it's that this settlement is larger than our specific case…Being in the world of art, this case has the potential to be part of a universal understanding and healing."[22]

Four years later, in 2004, the Gallery was defending itself for a sale of another painting stolen during World War II. In 1955, the Gallery sold a painting *Spring Sowing* by the Italian artist Jacopo da Ponte to the Springfield Library and Museum Association (the Association) for $5,000. The bill of sale stated that the defendant "covenants with the grantee that it [is] the lawful owner of the said goods and chattels; that they are free from all encumbrances; that it have [sic] good right to sell same as aforesaid; and that it will warrant and defend the same against lawful claims and demands of all persons."[23] However, in 1966, the Director General of the Arts for the Italian Government wrote to the Association's director, claiming that *Spring Sowing* belonged to the Uffizi, a museum in Florence, Italy. Apparently the painting was on loan to the Italian Embassy in Poland before World War II, and it went missing during the War. The Association exchanged letters with the Gallery staff and Italian officials, and while the Gallery staff acknowledged that probably this painting was the one stolen from the embassy, little action was taken until the early 2000s, when the Italian government reached out again to the Association. Following the 2001 return of the painting, the Association sued the Gallery alleging breach of contract, breach of implied warranty, fraud and deceit, negligence and misrepresentations, among other counts. The ultimate decision or the terms of a settlement between the Association and the Gallery are not public; however, the court refused to dismiss this case even though the Gallery argued that the plaintiff's actions were time barred. In fact, the court refused to decide the case at the pleading stage, and found that the Museum may be able to argue equitable estoppel to overcome the Gallery's time limitations argument, ruling that the statute of limitation was tolling since the 1960s.[24]

* * * Posthumously * * *

Ann Freedman turned out to be the last of the Gallery directors. Now a principal of another art gallery at 25 East 73rd Street in New York City, called FreedmanArt, Freedman worked at the Gallery from 1977 through 2009.

When venerable establishments like the Gallery crumble, the aftershocks tend to reverberate far and wide. The circumstances of its demise, *in particular* sale of numerous forgeries at high market value prices, triggered many legal proceedings. The fakes came from a single source, an art dealer named Glafira Rosales, who offered the Gallery dozens of "previously unknown works painted by important Abstract Artists."[25] Rosales provided only basic background about the original collector of these works, but the art world was eager to embrace a crop of fresh Pollocks, Rothkos, Klines and other prized artists. Many art experts, including curators with the leading galleries and authors of catalogue raisonnes, seasoned collectors and gallerists, such as Ann Freedman, viewed the works offered by Rosales and believed them to be authentic. As more heretofore unseen works were entering the market, Rosales fabricated provenance information, even allegedly naming Alfonso Ossorio, an artist and a collector, as a conduit from the famed artists to the anonymous collector as an explanation of their long lost status.[26]

The too-good-to-be-true discovery of the Abstract Expressionist treasure trove was simply just that. On September 16, 2013, Rosales pled guilty to all counts brought against her, including charges of wire fraud, tax evasion, failure to file financial statements, money laundering, and more.[27] She is facing a prison sentence of almost 100 years, revocation of her U.S. citizenship, as well as monetary penalties in excess of $80 million. Rosales is reportedly cooperating with the government, but that does nothing for the defunct Gallery.

Between 2011 and 2013, there were half a dozen legal actions started against the Gallery in the Southern District of New York, and complaints continue to materialize.[28] First, on December 1, 2011, Pierre Lagrange, a businessman from London, filed a complaint against Knoedler Gallery LLC and Ann Freedman, having received a forensic report that showed that the work attributed to Pollock that he purchased from the Gallery for $17 million was a forgery.[29] In 2012, John D. Howard sued Freedman, Rosales and the Gallery, accusing them of common-law fraud, breach of warranty, mistake and RICO violations, for selling him a fake Rothko for $8.4 million.[30]

Next, in rapid succession, the Martin Hilti Family Trust,[31] Domenico and Eleanore De Sole,[32] Frances Hamilton White,[33] David Mirvish Gallery Limited,[34] and The Arthur Taubman Trust[35] all sued to recover their losses on forgeries the Gallery sold to them from the Rosales Collection. For example, Frances Hamilton White brought action seeking compensatory and punitive damages for the sale of a fake Pollock.[36] Together with her ex-husband, she purchased a purported Jackson Pollock painting for $3.1 million, which has since been determined to be a forgery. In the complaint, the plaintiff submitted that she "chose to acquire art through Knoedler because of its reputation as New York City's oldest art gallery." She purchased multiple works for about $5 million because she and her former husband relied on the "knowledge, experience and sterling reputation" of the Gallery and its staff. The collectors tried to unwind the sale when the work was declined on consignment by an auction house because it did not appear in a Pollock catalogue raisonne. White alleged that the defendants "profited greatly from the fraudulent sale(s)," namely Rosales received about $670,000 for her "Pollock," a price well below market value, while the Gallery and its agents kept more than $2.4 million.

The most recent complaint to name the Gallery as defendant was filed on August 30, 2013. Michelle Rosenfeld Galleries sued two collectors, Martin and Sharleen Cohen, and Knoedler Gallery LLC, because Rosenfeld felt threatened that its art sales from 1997 and 1998 were under suspicion by the Cohens. These clients allegedly requested a refund for a Pollock and a de Kooning Rosenfeld sold to the Cohens (having first purchased them from the Gallery). Rosenfeld is seeking declaratory judgment that any claim by the Cohens is barred as a matter of controlling law, that any continued pursuit of refund would be frivolous and merit compensation of Rosenfeld's legal expenses. Lastly, Rosenfeld requests an indemnification by the Gallery against any purported liability in case the claim by the collectors proceeds.[37]

According to Freedman, Knoedler sold about 40 paintings from the Rosales Collection. In a conservative prognosis, more suits against Knoedler are coming down the legal conveyer belt. The aftershocks of the Gallery's demise are also leaving marks in the courts. Most recently, Ann Freedman, named defendant in some of the lawsuits, brought a legal action of her own. In *Freedman v. Grassi*,[38] she alleges that another art dealer, Marco Grassi, owner of Grassi Studios gallery, defamed her when his opinion of Freedman's due diligence in investigating the Rosales Collection appeared in *New York Magazine*.[39] Grassi was quoted as saying, "It seems to me Ms. Freedman was totally irresponsible, and it went on for years… Imagine people coming to someone and saying every painting you sold me is a fake. It is an unthinkable situation. It is completely insane. A gallery person has an absolute responsibility to do due diligence, and I don't think she did it. The story of the paintings is so totally kooky. I mean, really. It was a great story and she just said, "this is great."[40]

Freedman alleges that she was acting in good faith and with due diligence conducted research into the provenance of the Rosales Collection. She alleges that Grassi deliberately published a false defamatory statement about her to harm her reputation, and thus she seeks compensatory damages, nominal damages and punitive damages, as well as judgment interest allowable by law, attorney fees, legal costs and any other appropriate relief.[41] Whether Freedman's case survives pretrial motions remains to be seen. However, the Gallery is now figuring in association with a First Amendment and freedom of speech dispute.[42]

Even posthumously the Gallery finds itself in a rare situation, having shaped the habits of generations of collectors, going out of business with a bang and not a whisper, and having been sued multiple times. The way things are developing, it may merit the prize for one of the most sued art galleries of the modern times, second perhaps only to Salander-O'Reilly. However, as the Rosales conspiracy fades away, and the complete history of the Knoedler Gallery waits to be written, what is worth emphasizing is that this venerable Gallery will more likely be remembered for its avant-garde aesthetic and the authentic gems it dealt in rather than the fakes and legal disputes that marred its last chapter. Having left an indelible mark on the world of art in the United States, the Gallery's legacy is larger than the series of recent and pending cases.

Endnotes

1. Until I started working on this article, I did not realize that my favorite artwork on display at the Metropolitan Museum of Art has Knoedler Gallery as part of its provenance. *See* Metropolitan Museum of Art, "Collections: Salome, by Henri Regnault," *available at* http://www.metmuseum.org/Collections/search-the-collections/437384?rpp=20&pg=1&ft=knoedler&pos=10.
2. *Schapiro v. Commissioner*, T.C. Memo 1968-44, 1968 Tax Ct. Memo LEXIS 254, 27 T.C.M. (CCH) 205, T.C.M. (RIA) 68044 (T.C. 1968).
3. *People v. Broady*, 5 N.Y.2d 500, 158 N.E.2d 817, 186 N.Y.S.2d 230, 1959 N.Y. LEXIS 1447, 74 A.L.R.2d 841 (N.Y. 1959).
4. *Ward Eggleston Galleries v. United States*, 1955 Cust. Ct. LEXIS 7 (Cust. Ct. Jan. 4, 1955); *Thannhauser v. United States*, 14 Cust. Ct. 62, 1945 Cust. Ct. LEXIS 7 (Cust. Ct. 1945).
5. *Knoedler v. Boussod*, 47 F. 465, 1891 U.S. App. LEXIS 1455 (C.C.D.N.Y. 1891), *aff'd*, 55 F. 895, 1893 U.S. App. LEXIS 2026 (2d Cir. N.Y. 1893).
6. *Springfield Library & Museum Ass'n v. Knoedler Archivum, Inc.*, 341 F. Supp. 2d 32, 2004 U.S. Dist. LEXIS 20438 (D. Mass. 2004); *Rosenberg v. Seattle Art Museum*, 42 F. Supp. 2d 1029, 1999 U.S. Dist. LEXIS 4302 (W.D. Wash. 1999).
7. *Konowaloff v. Metropolitan Museum of Art*, 702 F.3d 140 (2d Cir. 2012).
8. *De Sole v. Knoedler Gallery, LLC*, 2013 U.S. Dist. LEXIS 20368, 2013 WL 592666 (S.D.N.Y. Feb. 14, 2013).
9. Knoedler Gallery Archive, http://www.getty.edu/research/special_collections/notable/knoedler.html; the idea to create the Metropolitan Museum of Art dates back to 1866, while the National Gallery of Art in Washington D.C. was opened to the public in 1941; the Boston Museum of Fine Art opened in 1876.
10. *Knoedler v. Boussod*, 47 F. 465, 1891 U.S. App. LEXIS 1455 (C.C.D.N.Y. 1891).

11. A Dark Mirror: Romanov and Imperial Palace Library Materials in the Holdings of The New York Public Library (Robert H. Davis, ed. , 1999); Robert C. Williams, Russian Art and American Money, 1900–1940 (1980).

12. Irina Tarsis, *Knoedler & Co: Thanks for ALL the Memories*, Center for Art Law (Dec. 6, 2011), *available at* http://itsartlaw.com/2011/12/06/updated-knoedler-co-thanks-for-all-the-memories/.

13. James Panero, *"I am the Central Victim": Art Dealer Ann Freedman on Selling $63 Million in Fake Paintings*, NY Mag. (Aug. 2013), *available at* http://nymag.com/daily/intelligencer/2013/08/exclusive-interview-with-ann-freedman.html.

14. Press Release, The Getty Trust, "Getty Research Institute Acquires Archive of the Historic Knoedler & Company Gallery" (Oct. 18, 2012), *available at* http://news.getty.edu/press-materials/press-releases/knoedler-and-company-gallery-archives.htm.

15. *Knoedler v. Boussod*, 47 F. 465, 1891 U.S. App. LEXIS 1455 (C.C.D.N.Y. 1891), *aff'd*, 55 F. 895, 1893 U.S. App. LEXIS 2026 (2d Cir. N.Y. 1893).

16. *Knoedler v. Glaenzer*, 55 F. 895, 1893 U.S. App. LEXIS 2026 (2d Cir. N.Y. 1893).

17. 36 Treas. Dec. 63, T. D. 37898, G. A. 8229 (1919).

18. United States Dept. of the Treasury, United States. Customs Court. Treasury Decisions Under Customs and Other Laws, Vol. 36, Jan.–Jun. 1919 (Washington, Government Printing Office, 1919) 63.

19. *Rosenberg v. Seattle Art Museum*, 124 F. Supp. 2d 1207, 2000 U.S. Dist. LEXIS 7770 (W.D. Wash. 2000), *aff'd*, 42 F. Supp. 2d 1029, 1999 U.S. Dist. LEXIS 4302 (W.D. Wash. 1999).

20. *Id.*

21. Arthemis: Art-Law Centre University of Geneva, "Odalisque Painting—Paul Rosenberg Heirs and Seattle Art Museum," *available at* https://plone.unige.ch/art-adr/cases-affaires/odalisque-painting-2013-paul-rosenberg-heirs-and-seattle-art-museum/#F20; *Seattle Art Museum Sues over Matisse Painting*, Las Vegas Sun (Mar. 27, 2000), *available at* http://m.lasvegassun.com/news/2000/mar/27/seattle-art-museum-sues-over-matisse-painting/; Sheila Farr, *Seattle gets pick of paintings after Matisse loss*, The Seattle Times (Oct. 13, 2000), *available at* http://community.seattletimes.nwsource.com/archive/?date=20001013&slug=4047641.

22. *Id.*

23. *Springfield Library & Museum Ass'n v. Knoedler Archivum, Inc.*, 341 F. Supp. 2d 32, 2004 U.S. Dist. LEXIS 20437 (D. Mass. 2004).

24. *Id.*

25. Complaint, in *Freedman v. Grassi*, Supreme Court of New York, filed on Sept. 11, 2013, 1.

26. For example see, Ossorio, Alfonso (1916–1990) Finding Aid, Houghton Library, nrs.harvard.edu/urn-3:FHCL.Hough:hou01918.

27. Indictment, *U.S. v. Rosales*, 13 Crim 518 (2013); Crain's New York Business, *Art Dealer Pleads Guilty to Phony Paintings*, (Sept. 16, 2013), *available at* http://www.crainsnewyork.com/article/20130916/PROFESSIONAL_SERVICES/130919904.

28. Patricia Cohen, *Sixth Suit Filed by Client Against Former Knoedler Gallery*, N.Y. Times (May 9, 2013), *available at* http://artsbeat.blogs.nytimes.com/2013/05/09/sixth-suit-filed-by-client-against-former-knoedler-gallery/?_r=0; *Rosenfeld v. Knoedler Gallery*, 653030/2013 (Aug. 30, 2013).

29. *Lagrange et al. v. Knoedler Gallery, LLC*, 1:2011 cv08757 (S.D.N.Y. Dec. 1, 2011); Julia Halperin, "Everything You Wanted to Know About the Knoedler Debacle But Where Afraid to Ask," Blouin ArtInfo (Dec. 6, 2011), *available at* http://www.blouinartinfo.com/news/story/753301/everything-you-ever-wanted-to-know-about-the-knoedler-forgery-debacle-but-were-afraid-to-ask.

30. *Howard v. Freedman et al.*, 1:2012-cv-05263 (S.D.N.Y. Jul. 6, 2012).

31. *The Martin Hilti Family Trust v. Knoedler Gallery, LLC* et al., 1:2013-cv-00657 (S.D.N.Y. Jan. 29, 2013).

32. *De Sole v. Knoedler Gallery, LLC*, 2013 U.S. Dist. LEXIS 20368 (S.D.N.Y. Feb. 14, 2013).

33. *White v. Freedman et al.*, 1:2013-cv-01193 (S.D.N.Y. Feb. 21, 2013).

34. *David Mirvish Gallery Limited et al. v. Knoedler Gallery, LLC*, 1:2013-cv-01216 (S.D.N.Y. Feb. 22, 2013).

35. *The Arthur Taubman Trust et al. v. Knoedler Gallery, LLC et al.*, 1:2013-cv- 03011 (S.D.N.Y. May 3, 2013).

36. *White v. Freedman et al.*, 1:2013-cv-01193 (S.D.N.Y. Feb. 21, 2013).

37. *Rosenfeld v. Knoedler Gallery*, 653030/2013 (Aug. 30, 2013).

38. *Freedman v. Grassi*, Supreme Court of New York, Filed on Sept. 11, 2013, 1.

39. James Panero, *"The Story was Credible": Art Dealer Ann Freedman on Selling $63 Million in Fake Paintings,"* NY Mag. (Aug. 27, 2013).

40. *Id.*

41. *Supra*, no. 38.

42. According to Richard Altman, who specializes in defamation among other practice areas, "It is an elementary principle of defamation law that for a statement to be actionable, it must be a statement of fact, capable of being proven true or false. Generally, statements of pure opinion, so long as they are based upon publicly available facts, cannot be the basis of a defamation claim. Moreover, if the plaintiff is a public figure, that is, someone who has taken a position with respect to a matter which is the subject of widespread interest, or who has voluntarily thrust herself into a matter of controversy, then the standard is much higher, because of the First Amendment rights of the speaker. In that case, the plaintiff must prove that the statements were made either with knowledge that they were false, or that the publisher had serious doubts that they were true but went ahead anyway. This has been settled law ever since the landmark case of *New York Times Co. v. Sullivan*, 376 U.S. 254 (1964). *See* Richard A. Altman, "A Knoedler Aftershock: Freedman sues for Defamation," Center for Art Law (Sept. 16, 2013), available at http://itsartlaw.com/2013/09/16/a-knoedler-aftershock-freedman-sues-for-defamation/.

Irina Tarsis, Esq. is a founder of Center for Art Law. She is a member of the Pro Bono Committee of the NYSBA's EASL Executive Committee and she chairs the Cultural Heritage and the Arts Interest Group of the American Society of International Law.

Postscript: On September 30th, U.S. District Judge Paul G. Gardephe ruled in the* de Sole *and* Howard *actions against the Knoedler Gallery, Ann Freedman and the other defendants. Judge Gardephe dismissed all claims of wrongdoing against the gallery owner, Hammer; but he denied most motions to dismiss charges against Freedman and Rosales, including charges of fraud, unilateral and mutual mistake, fraudulent concealment, aiding and abetting fraud, and others. Naturally, the court granted the plaintiffs' leave to amend their complaints.

Source: de Sole & Howard v. Knoedler Gallery LLC, et al., 12 Civ. 2313 PGG (S.D.N.Y. Sept 30. 2013).

How to Obtain Indie Film Financing

By Donovan A. Rodriques

As with any other business, there are innumerable ways of financing the production and release of a film. Yet film financing is one of the most arduous challenges of independent filmmaking. Raising capital requires proper research, compliance with applicable law, and frequent involvement of experienced entertainment attorneys. This is especially true as the amount of necessary capital increases for films of larger scope. With this in mind, there are typically four categories of financing available: self, debt, equity, and advance sales financing. Each category provides particular benefits and challenges for the indie producer.

Self-financing

The most direct and infrequent form is self-financing: the simple use of one's own cash for production purposes. In fact, one of the main sources of personal financing for an independent producer is discretionary income. However, the challenge in discretionary income is that most independent producers simply do not have enough and so must rely on additional funds to achieve their goals and visions. As such, a great alternative for both new and experienced producers lies in donation-based financing. Companies such as Kickstarter and Indiegogo provide effective tools to fund creative projects.

Debt Financing

With debt financing, the producer may take out loans to cover production costs. A lender, typically a bank, will lend the producer money in exchange for a promise to repay the loan plus specified interest.

There is a certain level of risk involved for the borrower because, whether the project succeeds or not, the lender demands full repayment. One can expect the producer to be personally liable for such repayment in case profits from the film are insufficient to cover the borrowed amount and interest. The benefit is that the lender's profit will be a fixed amount, so the more successful the film, the greater the potential for overall profits for the producer.

Pre-sales Financing

Advance sales (or Foreign pre-sales) financing allows a producer to raise funds by selling the film's distribution rights in a particular territory. For example, it may mean theatrical rights only or theatrical plus video plus television rights in a territory. These sales can be structured either as percentages of the budget or in fixed dollar terms.[1] This type of deal usually gives the distributor approval over all material elements of production. Such approval rights can include approval over the budget, production schedule, the script, all above-the-line talent (such as principal cast, director, writer, producer), and contingent compensation granted (for example, net or gross profit participations), and the right to approve delivery specifications. In addition to approval of the creative and financing elements, the agreement will grant the distributor large distribution fees.

> *"[T]here are typically four categories of financing available: self, debt, equity, and advance sales financing."*

Fortunately (or unfortunately), it has become increasingly more difficult to pre-sale a particular project since many distributors will only buy a project once completed. Since many sales distribution rights do not automatically result in cash, the indie producer must borrow from a lender using such pre-sale agreement as collateral—the film's distributor may serve as guarantor. It is only natural that the more well established the distributor, the more likely that a lender will lend money to finance the project. However, the amount likely to be raised will vary greatly based on the cast, producers, directors, and distributors involved.

Equity Financing

Lastly, indie productions can have "angel" financing, where a wealthy third party entity or individual may simply underwrite the production. This type of financing can raise enough money so that the producer can pay for production costs and bargain for reduced distribution fees. For the angel investor and the producer, reduced distribution fees are key to any deal. Where they can pay all the production costs of the film, they are in a strong position to negotiate and obtain low distribution fees as well as maintain the upside and keep control over the property both creatively and economically.

This type of equity financing, however, allows an investor to receive money only if the particular film yields a positive return on investment. The more successful the film, the more cash the investor will receive. As such, indie producers are encouraged to offer the angel investor real risk mitigation with downside protection from tax rebates, tax deductions and clear capital preservation strategy.

Fortunately, many investors who dabble in films do so for diversification,[2] and indie films generally are low-budget and cheaper to invest in and thus can offer investors a fairer recoupment of their investment that will yield faster returns.[3] Indie films often generate a return on investment (ROI) of several thousand percent. For example, *Paranormal Activity*, a low-budget ($15,000) independent film released in 2009, made over $196,000,000 from ticket receipts alone.

Even so, the ultimate challenge facing the investor is to predict the outcome even before the film is made. The investor will be asked to judge the indie producer's creative value proposition without adequate inputs to make the decision required. This is a nearly impossible task.[4] As with any investment, prior to releasing money towards the initiative, the investor will perform due diligence and study the script, the genre of the film, and the target audience. It will look at the track record of the producers, the budget, and the crew before hedging any money.

> *"Clearly, there are a number of ways to finance the indie producer's dream project, yet each way provides unique challenges and risks to manage."*

This quandary for the indie producer is, in part, because so many investors will place emphasis on backing those with successful track records. While there are no golden rules or right answers in selecting creative goods before they are produced, and because creative goods are subject to infinite variety, and nobody knows with certainty what will work—especially at the root stage before a project is infused with its creative spark—what is most coveted and compensated is creative talent that backers believe will infuse a project with pixie dust.[5]

Conclusion

A level of complexity is introduced in most financings because the structure is rarely a pure form of the methods previously described. There is no obvious outcome, with a continuum of stakeholding moving up and down depending on the percent of ownership, percent of budget covered, and range of rights retained / granted by the producer. The producer can have any combination, resulting in raising 100% or more of the film's funding requirements. Whatever the combination chosen, the end game is to cover the production budget whilst retaining as much control over the creative aspects, marketing and distribution of the picture, and as much of an equity stake as possible.

Clearly, there are a number of ways to finance the indie producer's dream project, yet each provides unique challenges and risks to manage. Regardless of such means, it is efficient to work with an attorney in the field to determine the overall risk sensitivity and best option.

Endnotes

1. Jeff Ulin, The Business of Media Distribution: Monetizing Film, TV and Video Content in an Online World 91 (Kindle ed., Taylor & Francis 2012).
2. Joseph P. Lancaster, Investing in Independent Films 19-20 (Kindle ed., Joseph Lancaster 2013).
3. *Id.* at 22.
4. Ulin, *supra* note 1, at 81.
5. *Id.*

Donovan Rodriques is a business and entertainment attorney, specializing in the representation of clients in all areas of the film, television, music, Internet and digital industries, with a focus on production financing. His website is *http://rodriqueslaw.com*.

Equity Crowdfunding Under the JOBS Act—Past, Present, and Future

By Adam Beasley

A. Introduction

New Security and Exchange Commission (SEC) Rules have given filmmakers, start-ups, and others product and service providers the ability to provide equity to investors through crowdfunding platforms. The new rules implement Title II of the Jumpstart Our Business Startups Act (JOBS Act or the Act) and went into effect on September 23rd. Formerly, investment opportunities could only be presented to individuals through private offerings and could not be publicly solicited because of perceived investment risk. The new rules allow those seeking funding to advertise investment opportunities on television, Facebook, Twitter, and basically everywhere else, including through crowdfunding sites and social media. This development will greatly impact musicians, filmmakers, startup companies, and others utilizing crowdfunding platforms by giving them the ability to offer profit participation if the venture is successful.

President Obama signed the JOBS Act on April 5, 2012. The Act seeks to encourage investment in small businesses by easing certain securities regulations. To quote the legislation, the purpose of the JOBS Act is "to increase American job creation and economic growth by improving access to the public capital markets for emerging growth companies."[1] Title II, entitled "Access to Capital for Job Generators," is the first implementation of the Act to effect crowdfunding by giving birth to an "equity crowdfunding" market. Public solicitation of early stage investment in any form had been banned for the past 80 years.

Title II applies to investment from "accredited investors," which are individuals with (a) a combined net worth, excluding the primary residence, in excess of $1 million, or (b) an annual income of $200,000 over the previous two years ($300,000 for couples).[2] An estimated nine million Americans qualify. Title II creates a special type of offering under the new Rule 506(c) allowing general solicitation and advertising of fundraising opportunities as long as issuers have taken reasonable steps to verify that investors are "accredited."[3] Rule 506(c) is part of Regulation D of the Securities Act of 1933 (the '33 Act) and went into effect on September 23, 2013. As Rule 506 is part of Reg D, Rule 503 instructs issuers to submit Form D to the SEC within 15 days of the first sale of securities under the offering.[4]

The SEC submitted its proposed rules implementing Section 201(a) of the JOBS Act on August 29, 2012.[5] The SEC received hundreds of public comments to its proposed rules, and published the final rules with amendments on July 10, 2013.[6] The final rules also implemented and applied the "bad actor" provisions of Section 926 of the Dodd-Frank Wall Street Reform and Consumer Protection Act.[7] Despite a December 31, 2012 deadline, the SEC has yet to propose rules to implement Title III of the JOBS Act, which would extend the public solicitation exemption, with certain limitations, to non-accredited investors.*

The final Rule 506(c) states:

(c) ***Conditions to be met in offerings not subject to limitation on manner of offering—***

> **(1)** ***General conditions***. To qualify for exemption under this section, sales must satisfy all the terms and conditions of §§ 230.501 and 230.502(a) and (d).
>
> **(2)** ***Specific conditions—***
>
> > **(i)** ***Nature of purchasers.*** All purchasers of securities sold in any offering under paragraph (c) of this section are accredited investors.*
> >
> > **(ii)** ***Verification of accredited investor status***. The issuer shall take reasonable steps to verify that purchasers of securities sold in any offering under paragraph (c) of this section are accredited investors. The issuer shall be deemed to take reasonable steps to verify if the issuer uses, at its option, one of the following non-exclusive and non-mandatory methods of verifying that a natural person who purchases securities in such offering is an accredited investor; provided, however, that the issuer does not have knowledge that such person is not an accredited investor:
> >
> > > **(A)** In regard to whether the purchaser is an accredited investor on the basis of income, reviewing any Internal Revenue Service form that reports the purchaser's income for the two most recent years (including, but not limited to, Form W-2, Form 1099, Schedule K-1 to Form 1065, and Form 1040) and obtaining a written representation from the purchaser that he or she has a reasonable expectation of reaching the income level necessary to qualify as an accredited investor during the current year;
> > >
> > > **(B)** In regard to whether the purchaser is an accredited investor on the basis of net worth, reviewing one or more of the following types of documentation dated within the prior three months and obtaining a written representation from the purchaser that all liabilities necessary to make a determination of net worth have been disclosed:

(*1*) With respect to assets: Bank statements, brokerage statements and other statements of securities holdings, certificates of deposit, tax assessments, and appraisal reports issued by independent third parties; and

(*2*) With respect to liabilities: A consumer report from at least one of the nationwide consumer reporting agencies; or

(C) Obtaining a written confirmation from one of the following persons or entities that such person or entity has taken reasonable steps to verify that the purchaser is an accredited investor within the prior three months and has determined that such purchaser is an accredited investor:

(*1*) A registered broker-dealer;

(*2*) An investment adviser registered with the Securities and Exchange Commission;

(*3*) A licensed attorney who is in good standing under the laws of the jurisdictions in which he or she is admitted to practice law; or

(*4*) A certified public accountant who is duly registered and in good standing under the laws of the place of his or her residence or principal office.

(D) In regard to any person who purchased securities in an issuer's Rule 506(b) offering as an accredited investor prior to September 23, 2013 and continues to hold such securities, for the same issuer's Rule 506(c) offering, obtaining a certification by such person at the time of sale that he or she qualifies as an accredited investor.

Instructions to paragraph (c)(2)(ii)(A) through (D) of this section:

1. The issuer is not required to use any of these methods in verifying the accredited investor status of natural persons who are purchasers. These methods are examples of the types of non-exclusive and non-mandatory methods that satisfy the verification requirement in § 230.506(c)(2)(ii).
2. In the case of a person who qualifies as an accredited investor based on joint income with that person's spouse, the issuer would be deemed to satisfy the verification requirement in § 230.506(c)(2)(ii)(A) by reviewing copies of Internal Revenue Service forms that report income for the two most recent years in regard to, and obtaining written representations from, both the person and the spouse.
3. In the case of a person who qualifies as an accredited investor based on joint net worth with that person's spouse, the issuer would be deemed to satisfy the verification requirement in § 230.506(c)(2)(ii)(B) by reviewing such documentation in regard to, and obtaining written representations from, both the person and the spouse.

This article will attempt to distill the legal framework surrounding the new SEC rules by giving a brief background and history of crowdfunding and its various forms, discussing the current securities framework surrounding private offerings and public solicitation, and giving a detailed account of the new rules and what issuers are required to do to maintain the Rule 506 public offering exemption while generally soliciting and advertising their investments. It will close with a quick peek at the anticipated public crowdfunding rules for non-accredited investors embodied in Section III of the JOBS Act and discuss the benefits and risks of equity crowdfunding for entertainment companies and start-ups.

B. Background

1. Crowdfunding: Let Me Tell Ya' Bout a Thing, That's Been Goin' Around[8]

Crowdfunding is roughly defined as the collective effort to network and pool money around a particular project or business. The term embraces equity crowdfunding, crowd financing, and crowd-sourced fundraising. The current crowdfunding movement is an evolutionary offspring of the crowd sourcing movement brought about by the rise of technology and advanced worldwide communication avenues.

Crowdfunding can trace its roots back to the seventeenth century, where authors used various patrons to get their books published. The author's beneficiaries pooled their money to support the author while writing and developing his or her work. The first modern example of large scale crowdfunding dates back to 1884. The Statue of Liberty almost did not make it over from France because the American Committee had been unable to raise the estimated $300,000 it would take to build the pedestal on which the Statue would sit. Fortunately, Joseph Pulitzer and his newspaper *The World* orchestrated a massive crowdfunding campaign that appealed to the American people. The campaign raised over $100,000 in five months and included over 120,000 micro-donations, which in most cases were less than one dollar.

The current donation-based crowdfunding model has become extremely popular in recent years. The first iterations to hit the U.S. market were ArtistShare in 2001 and Pledgie and SellaBand in 2006. However, the current crowdfunding craze centers around the new industry heavy-hitters IndieGoGo, Kickstarter, and RockHub, all of which were started between 2008 and 2009. These platforms have produced many success stories from the entertainment industry, including the massive film projects orchestrated by Zack Braff and Spike Lee, raising $3.1 million from 46,000 backers and $1.4 million from 6,400 backers, respectively, as well as one the largest campaigns of all time orchestrated to bring back the show "Veronica Mars," which raised over $5.7 million despite only initially asking for $2 million. The popularity of these sites has been a boon for companies looking for start-up or acceleration funding, as well as artists, filmmakers, video game designers, charities, and other entertainment projects hoping to raise money while simultaneously turning their backers into marketing evangelists.

There are many reasons to believe that the current crowdfunding ecosystem is still in the early stages of its product lifecycle. Despite its popularity, crowdfunding is still relatively unknown. As the word spreads, it stands to reason that more funding will flow into the space. Furthermore, the crowdfunding movement has the public and political support to achieve sustainable growth. If nothing else, the current SEC Rules should be viewed as an attempt to legitimize this burgeoning market, and even the most skeptical critics would be hard-pressed to deny the possibilities attendant in the space. In all likelihood, the crowdfunding model is still in the early adoption phase and as it becomes more popular and a legitimate legal ecosystem emerges, the project finance market will change dramatically.

There are currently four major crowdfunding models: rewards / donation-based, equity / profit participation-based, debt-based, and hybrid. These models are classified by how funds are used—whether as a donation or as security for an investment. Rewards-based crowdfunding is currently the most popular (think Kickstarter, Indiegogo) and rewards donors or "backers" with special perks such as a DVD, a letter from the director, special thanks, or a producer credit, to name a few. Fundraisers have become creative with the types of rewards being offered, so much so that some concerns have been raised as to whether such "donations" should actually be considered investments. Rewards-based crowdfunding is not currently regulated by the SEC because the crowdfunding contribution is not considered the purchase of a security.[9]

Equity or profit participation-based crowdfunding[10] exists where funds are given in exchange for equity in the organization, with the hope that the value of the organization increases or where backers are entitled to a percentage of the gains or profits distributed to investors. Equity crowdfunding at the federal level[11] is governed by the new and anticipated SEC rules resulting from the JOBS Act.

Debt-based crowdfunding, also known as "peer to peer" (P2P) finance, occurs where investors act like miniature banks and earn the right to interest payments on top of their capital investments. Prosper and Lending Club are the key players in the P2P finance market, and both companies are growing by leaps and bounds.[12] The hybrid model, as may be obvious, is some combination of the previous three models. This article will focus on the legal framework surrounding equity crowdfunding.

Current crowdfunding sites are further categorized by their approaches to how contributions vest with the project orchestrators. In an "all or nothing" approach, the orchestrator is only entitled to the money collected if the target dollar amount is reached. Kickstarter takes this approach. In a "keep it all" approach, funds are collected and kept by the seeking party regardless of whether the funding target has been reached. IndieGoGo takes this approach. Less prevalent is the "bounty approach" that, as the name implies, works by giving the funds collected to anyone who completes the task or the project. This model usually works well for coding projects.

2. Benefits and Problems

Much brouhaha has been made over the benefits of crowdfunding—with some going so far as to consider it a savior or magic bullet for projects that need funding. While there are certainly benefits, there are also drawbacks. The key benefit of crowdfunding is that it gives people and organizations access to capital that might otherwise have been unattainable. Rather than being limited to the angel investment or venture capital markets, parties are able to take their projects directly to the people, who are then able to decide whether or not a project is worth backing. Often the decisions of backers are based not only on the attractiveness of the product or service but also on an emotional connection created with the project or campaign, just like Pulitzer's campaign to fund the Statue of Liberty pedestal. Supporters are generally less concerned with the potential profitability of the project and are certainly less concerned with the exit strategy and the investment multiples promised by the project founder. This environment creates a very democratic access to capital, which hopefully results in a more knowledgeable marketplace and better and more efficiently priced offerings.

Crowdfunding also offers a much greater diversification of the investor base. Investors in a project may be spread across the world, but technological access to crowdfunding platforms allows these backers to participate as well. The investor base can also be diversified among various financial classes. Again, technological access and micro-funding give persons with the most limited resources the ability to invest or donate in a new product or service right alongside the wealthy. Lastly, the investor base can also be spread among parties with very different profit expectations. Backers can invest as little as one dollar for "good karma" to tens of thousands of dollars, as in the Spike Lee Kickstarter campaign, where for a $10,000 pledge, backers are to be treated to dinner with the director followed by courtside seats at a Knicks game.[13]

Finally, a huge benefit of crowdfunding is the built-in marketing team created by a project's backers. A healthy campaign with a multitude of early supporters will raise the profile of the product or service in the marketplace. These initial marketing evangelists can then be mobilized to engage other customers through their enthusiastic word of mouth. Product-based campaigns can also use donations or contributions to pre-sell their products—penetrating a highly relevant market from day one.

While these benefits certainly explain the popularity of crowdfunding, the model is not without its flaws. By raising money through a large scale, publicly available campaign, projects risk forfeiting intellectual property rights by disclosing their ideas before they have been properly developed. Lack of early-stage confidentiality is a major burden for companies investing in highly sensitive processes and technology.

The success of crowdfunding campaigns is also highly dependent upon the social media reach and influence of its founders. This can greatly limit the chances of a campaign's success. Those running a campaign should be mindful of the reach and marketing approach to the campaign so that unrealistic expectations are not set. There is a common misconception among campaign creators that as long as projects are built around products in which they believe, their ideas will get funded. In reality, orchestrating a successful crowdfunding campaign takes an enormous amount of preparation. Some experts have gone so far as to recommend beginning preparation and social network expansion as much as a year in advance. Common themes have emerged from statistics on successful campaigns, including large immediate investment upon campaign launch and influential early supporters that can increase the campaign's social media reach.

Creating a professional, well-publicized campaign also involves substantial upfront costs, including the cost of a professionally shot video, publicity, and outside writers and marketing advisors, as well as legal and back-end reward administration costs. Campaigns may risk exhausting their donors by asking for money too often or taking too long to produce the product or reward. Failure also brings its own reputational and opportunity costs.

Finally, there is the risk of fraud. There have been many high-profile examples of successful campaigns that failed to produce a finished product or service. In such situations, backers are simply left to wonder why the product was never created and where their investments went. This risk is magnified because the nature of crowdfunding, in gathering small amounts from many backers, discourages litigation. A backer who was promised a postcard from a director may be hesitant to institute expensive litigation. However, Congress and the SEC have committed to crafting a legal framework that minimalizes this risk.

3. Finance and Securities Basics

It should come as no surprise that there are many ways in which founders and operating partners finance their respective businesses and projects. Put simply, companies need money to operate. Operational capital can either come from the cash flows and profit generated by the business or from some form of finance. There are four main categories of finance: loans, bonds, preferred stock, and common stock. Each category is either a form of debt or equity and is more or less appropriate, depending on the nature and development stage of the business. The main forms of debt, loans and bonds, can be subdivided into asset-based, unsecured, secured, or mezzanine loans or high yield or low yield bonds. These categorizations are largely dependent on several factors, including the current capitalization of the business, its credit rating, its profit and cash-flow projections. The most common forms of equity financing come from preferred and common stock. Preferred stock is very common in the pre- initial public offerings (IPO) venture capital market, while common stock is more normally issued at IPO and for any equity follow-on.

A security is a tradeable financial asset. Securities are broadly categorized as debt securities (bonds, debentures, bank notes), equity securities (common stock, preferred stock), and derivative contracts (futures, options, swaps). The company or other entity issuing the security is called the "issuer." The person or organization purchasing the security is known as the investor or "purchaser." The legal definition of "security" comes from the application of the economic realities test first espoused in the preeminent Supreme Court case *Securities and Exchange Commission v. W.J. Howey Co.*,[14] and subsequent decisions. According to the *Howey* test, an interest is a security if (1) an investment of money has been made (2) in a common enterprise and (3) the investor has the expectation of profits, which are to arise solely or substantially from the efforts of others.[15]

Securities regulation in the United States is the field of law governing various securities transactions. Securities are regulated on both the state and federal level and are governed by a variety of government agencies, including the Financial Industry Regulatory Authority (FINRA), the SEC, and various other agencies and exchanges. The federal securities laws largely originated out of the post-Great Depression New Deal era. There are five particularly prominent securities laws, including the '33 Act regulating the sale of new securities; the Securities Exchange Act of 1934 regulating the trade of securities, brokers, and exchanges; the Trust Indenture Act of 1939 regulating debt securities; the Investment Company Act of 1940 regulating mutual funds; and the Investment Advisors Act of 1940 regulating investment advisors.[16] This article will focus on the regulations derived from the '33 Act.

Regulation D was adopted as part of the '33 Act in 1982 as a result of the SEC's evaluation of the impact of its rules on the ability of small business to raise capital.[17] The SEC has revised Regulation D various times over the years to address specific concerns relating to the facilitation of capital-raising as well as abuses that have arisen.[18] Regulation D contains a non-exclusive safe harbor provision under Section 4(a)(2) of the '33 Act that exempts certain transactions by an issuer "not involving any public offering" from the registration requirements of Section 5 of the '33 Act.[19] This safe harbor exemption is extremely important for small businesses raising modest amounts of capital, because compliance with the Section 5 registration requirements for public offerings are prohibitively expensive and can create liability for any organization that unwittingly makes a public offering.

Regulation D contains three exemptions for offerings exceeding $1 million, $5 million, and unlimited funds, respectively. Under pre-JOBS Act Rule 506(b),[20] an issuer could sell securities without any limitations on the offering amount, to an unlimited number of "accredited investors" and to no more than 35 non-accredited investors who meet certain "sophistication" requirements.[21] The term "accredited investor" is defined in Rule 501(a) of Regulation D,[22] and includes any person who comes within one of the definition's enumerated categories of persons, or who the issuer "reasonably believes" comes within any of the enumerated categories, at the time of the sale of the securities to that person.[23] For natural persons, Rule 501(a) defines an accredited investor as a person: (1) Whose individual net worth, or joint net worth with that person's spouse, exceeds $1 million, excluding the value of the person's primary residence (the "net worth test"); or (2) who had an individual income in excess of $200,000 in each of the two most recent years, or joint income with that person's spouse in excess of $300,000 in each of those years, and has a reasonable expectation of reaching the same income level in the current year (the "income test").[24] Rule 506(b) conditions the availability of this safe harbor exemption under Section 4(a)(2) on the issuers, or any person acting on their behalf, not offering or selling securities through any form of general solicitation. The new rules lift the general solicitation ban contained in Rule 506(b) by creating a new Rule 506(c).[25]

Congress also passed the Dodd–Frank Wall Street Reform and Consumer Protection Act (Dodd–Frank Act) in wake of the financial crisis: "To promote the financial stability of the United States by improving accountability and transparency in the financial system, to end 'too big to fail,' to protect the American taxpayer by ending bailouts, to protect consumers from abusive financial services practices, and for other purposes."[26] The Dodd–Frank Act affects the new 506(c) exemption by creating certain bad actor provisions designed to curb investment fraud by obligating issuers to obtain background checks from senior management and campaign coordinators.[27]

Generally, an offering is the offering or sale of a security with a view to distribute. All security offerings must be registered with the SEC unless an exception is available. The principal exceptions for purposes of the JOBS Act are private placements under Section 4(a)(2) and (6) and exchanges under Rule 144 and 144A and offerings made under Regulation A and what some are deeming Regulation A+.[28] General solicitation of an investment on a crowdfunding site would traditionally disqualify the offering from the private placement exemptions.[29]

"General solicitation" is not defined in Regulation D, but certain rules contain examples to guide practitioners. The examples contained in Rule 502(c) include advertisements published in newspapers and magazines, communications broadcast on television and over the radio, and investment information seminars.[30] The SEC has interpreted the 502(c) general solicitation and advertising examples to include other uses of publicly available media, such as unrestricted websites.[31]

4. The JOBS Act

Congress enacted the JOBS Act with the stated purpose: "To increase American job creation and economic growth by improving access to the public capital markets for emerging growth companies."[32] The various goals of the legislation include: leading to more efficient pricing for offered securities; efficient allocation of investments by accredited investors; expanding investors' opportunities for investment, which generally results in more efficient allocation of capital; decreasing the potential for fraud by increasing the competitive nature of the private funds industry and by treating securities purchased under the 506 exemption as "restricted securities" for resale purposes under Rule 144(d); lowering the direct costs of Rule 506 offerings by allowing direct investment solicitation; and lowering search costs associated with finding accredited investors through intermediaries.[33]

It is estimated that Rule 506 offerings raised over $173 billion in 2012.[34] Section 201(a)(1) of the JOBS Act seeks to increase this amount by removing the prohibition against general solicitation contained in Rules 502(c) as applied to offers and sales of securities made pursuant to Rule 506(c), provided that all purchasers of the securities are accredited investors and the issuer take reasonable steps to verify their status. The creation of Rule 506(c) of Regulation D is treated as an amendment to Section 4(a)(2) of the '33 Act. The JOBS Act also contained other provisions to facilitate capital investment by creating a so-called "on ramp" for companies preparing for IPOs and to reform public crowdfunding regulation by enacting Title III, which is to form a legal framework for general solicitation of non-accredited investors.[35]

Crowdfunding finance is directly affected by these new regulations because crowdfunding campaigns, at their core, are general solicitations and advertisements of investment opportunities. An issuer relying on Section 4(a)(2) was formerly restricted in its ability to make public communications to attract investors for its offering because public advertising is incompatible with a claim of exemption under Section 4(a)(2). Crowdfunding sites almost exclusively exist on the web and their support comes from general solicitation through online and social media platforms.

Title II of the JOBS Act relaxes the general solicitation and advertising rules contained in Rule 502(c) by deeming them inapplicable if all sales are to accredited investors—with annual income of $200,000 or higher ($300,000 if combined with a spouse) over the past two years that is expected to continue or with net worth, excluding the primary residence, in excess of $1 million—and the issuer takes "reasonable steps" to verify that purchasers are "accredited investors." The exemption is also conditioned on the satisfaction of the terms of Rules 501, 502(a), and 502(d).[36] The rules have no effect on previous filings under Rule 506(b). 506(b) is still in effect for those not wishing to make a general solicitation. Those issuers can then forgo the additional verification requirements attendant in the new rules.

Form D, which issuers are required to file under Rule 503(a), will also be amended to reflect the rule change. Form D is the notice issuers claiming a Regulation D exemption are required to file with the SEC. The amendment will add a checkbox to indicate that the issuer is claiming the 506(c) exemption.[37] The purpose of the Form D amendment is to preserve the regulation of current 506(b) offerings. According to Rule 503, any issuer offering securities in reliance on Rule 504, 505, or 506 must file a notice of sale on Form D for each new offering within 15 days following the first sale of securities in the offering.[38] Form D requests basic information about the offering, including the identification of the offeror and the specific exemption claimed.[39]

The "bad actor" provisions of the Dodd-Frank Act also affect new 506 offerings by disqualifying issuers and other market participants from relying on the rule if "felons and other 'bad actors'" are participating in the 506 offering.[40] The stated goal of these changes is to decrease the risk of fraud under the new 506(c) offering.[41]

5. Investor Verification

The meat and potatoes of the new securities reforms and the section that practitioners must pay closest attention to is the additional investor verification requirements contained in 506(c). Verification is an *independent requirement* that must be satisfied *even if* all investors are accredited.[42] These additional requirements separate 506(c) offerings, which may be generally solicited, from 506(b) offerings, where issuers are not required to verify investor status but may not be generally solicited. The new SEC rules obligate issuers to take "reasonable steps" to verify accredited investor status.[43] Unfortunately, the SEC does not clearly delineate the steps that must be taken. Instead, it has chosen a two-part approach.

The SEC provides issuers with two verification methods: a principles-based approach and a non-exclusive list of verification methods.[44] The rules put the onus on the issuer to make an objective determination of reasonableness.[45] The rules seek to provide flexibility to develop tailored, reliable, and cost-effective procedures for verification. This flexibility allows issuers to alter their steps for different investors. The more likely it appears that a purchaser qualifies as an accredited investor, the fewer steps the issuer must take to verify accredited status. The SEC points to offerings with a high minimum investment as examples of such situations.[46] However, because the burden is on the issuer to show that it has complied with the terms of the exemption, it will be important for issuers or their verification service providers to retain adequate records of the verification steps taken.[47]

The Principles-Based Verification Method provides a non-exclusive list of factors to consider as issuers go through the verification process:

(1) The **nature of the purchaser** and the type of accredited investor that the purchaser claims to be. This factor differentiates the verification steps necessary for various types of purchasers, such as institutional investors. Fewer steps will be required if a purchaser's information is publicly available.[48] The SEC has acknowledged that the verification of annual income will be easier than the measurement of net worth due to the existence of unknown and misreported liabilities.[49]

(2) The **amount and type of information provided** by the prospective purchaser is also an important factor. Information about many purchasers may be publicly available, for example, where the purchaser is a named executive of an Exchange Act registrant whose compensation is publicly disclosed or where the purchaser is a non-profit or one of its "key" employees whose tax filings disclosing assets and compensation, respectively, are publicly available. However, issuers will undoubtedly also be called upon to evaluate third party information such as pay stubs or specific information about the average compensation earned at the purchaser's workplace by persons at the level of purchaser's seniority.[50] The SEC also recognizes that many issuers will choose to use third party verification services to vet potential investors.[51]

(3) The **nature of the offering** is the final factor in this method. This factor considers the manner in which the purchaser was solicited to participate in the offering and its terms. For example, high minimum investment amounts and offering investments on platforms that cater to accredited investors may require fewer verification steps. This will likely create additional burdens on issuers soliciting investments through general social media, rather than from, say, a database of pre-screened accredited investors.[52] The SEC has taken the position that it is not enough for a purchaser to simply check a box—issuers must take affirmative actions.[53]

The SEC has also affirmed four "non-exclusive" methods for verifying accreditor investor status.[54] The first applies to natural persons seeking to verify on the basis of income. IRS documents are sufficient to verify income. The list of acceptable documents includes: Form W-2, Form 1099, Schedule K-1 of Form 1065, and Form 1040. Purchasers must submit such documentation for the two most recent years and *provide a written representation* that the purchaser has a reasonable expectation of similar compensation for the current year.[55] The SEC reasons that there is a low risk of fraud due to the numerous penalties imposed for misreporting in the tax forms.

The second method applies to natural persons seeking to verify their investor status on the basis of net worth. The SEC has stated that such persons only need to submit documentation for the three-month period prior to verification.[56] For assets, potential purchasers may submit bank statements, brokerage statements, or other statements of securities holdings, including certificates of deposit, tax assessments, and appraisal reports. For liabilities, issuers can verify by reviewing a consumer credit report from at least one nationwide credit reporting agency. For issuers verifying under this method and using a credit report, the SEC also requires the issuer to obtain a written representation from the potential purchaser that all of its liabilities have been disclosed.[57]

The third method prescribed by the SEC to verify investor status is where an issuer obtains written confirmation that it has taken reasonable steps to verify the status of its investors.[58] Such a confirmation may be obtained from a registered broker-dealer, an SEC-registered investment advisor, a licensed attorney, or a certified public accountant.[59] Presumably, these parties will be tasked with reviewing the methods used by the issuer to verify whether a potential purchaser is an accredited investor and will deem such steps "reasonable."

Finally, in response to numerous comments the SEC received in connection with its proposed rules, it has approved of natural persons investing in a new 506(c) who have already invested in a previous 506(b) as an accredited investor.[60] In this situation, the potential purchaser's status would be pre-verified as long as both offerings were made by the same issuer and the potential purchaser submits a certification stating that he or she remains an accredited investor.

The SEC also supports the use of third party verification services to complete this process. Third parties may submit an attestation or certification stating that a potential purchaser qualifies as an accredited investor, provided that the issuer has a reasonable basis to rely on such third party.[61] For example, many have predicted that services may be or have already been developed that verify a person's accredited investor status for purposes of new Rule 506(c) offerings and permit issuers to check the accredited investor status of potential investors, particularly for web-based Rule 506 offering portals that include offerings for multiple issuers.[62] This may also calm the concerns of privacy activists who object to the disclosure of confidential information to issuers with whom the purchaser has no prior relationship. These third party verification services would then be able to take proper steps to ensure that the purchaser information remains secure.

Most commentators have given the SEC credit for creating a workable system for facilitating a new 506(c) market. The new rules and amendments permit issuers to take their investments directly to the people by general solicitation and advertisement in exchange for additional verification obligations. While no framework will provide a perfect solution for every potential problem, by keeping the verification framework flexible and subjecting issuers to a reasonableness standard, issuers may confidently toe the new Rule 506(c) investment lines and harness this new general solicitation power. As is often the case with new rulemaking, the SEC has given itself the authority to periodically study and review these procedures and the ability to propose corresponding amendments as it deems necessary.

C. Analysis

Before concluding this discussion of the new equity crowdfunding rules for accredited investors under the JOBS Act, it is worth briefly exploring the differences between Title II crowdfunding and Title III[62] crowdfunding for the general public. Sponsors of the JOBS Act imagined Title III as a genuine system for legitimizing equity crowdfunding for the general public. However, in their attempts to get the legislation passed, the real bulk of the crowdfunding rules were watered down due to fraud considerations, making them almost completely unworkable. Despite a December 31, 2012 deadline, the SEC has yet to propose rules to enact Title III. However, the SEC's delay is understandable when one considers the legislation it was tasked with enacting.

Title III of the JOBS Act attempts to create a legitimate equity crowdfunding system for non-accredited investors, i.e., the general public. Title III governs crowdfunding in its purest form, i.e., investment opportunities offered to the whole crowd. The goal of this system is to foster a healthy crowdfunding market where investors could receive an equity stake in the completed project in exchange for their patronage. However, many commentators, your author included, consider Title III to be completely unworkable and unduly onerous. Furthermore, the added "protections" included in the Act may actually increase the risk to investors.

Title III, cleverly titled "Capital Raising Online While Deterring Fraud and Unethical Non-Disclosure" (or CROWDFUND, for those following along at home), creates a new private placement exemption under Section 4(a)(6) of the '33 Act. This new Regulation D exemption originated from the two perceived needs, namely that smaller retail investors did not have access to early stage investment opportunities and that start-up companies did not have adequate access to available capital, particularly the capital that can be raised online.

Title III includes a list of issuers not eligible for the 4(a)(6) exemption. Included on the list are non-U.S. companies, public reporting companies (although this exclusion only applies to companies that are required to report to the SEC, not those that do so voluntarily), and investment companies. The investment company exclusion includes companies excluded from the definition of "Investment Company" by section 3(b) or (c) of the Investment Company Act of 1940, including mutual funds, private equity funds, asset management vehicles, and business development companies.

Title III unfortunately includes a number of restrictions that make the JOBS Act prohibitively expensive for issuers and virtually unworkable. For starters, issuers are only allowed to raise a maximum of $1 million per 12-month period, creating the likelihood that only small companies will use the Title III exemption. Due to the size of these investments, larger, more sophisticated investors will completely forgo this market and in their absence, the market will suffer from a lack of information about issuers and offered investments. The market benefits from the research and resources large institutional investors bring to the table. Some commentators predict that this will create an environment where the riskiest investments will get pushed down the funding totem pole to the most vulnerable investors.[64]

Title III investments are also limited by the income or net worth of the potential purchaser. Accredited investors, as is the case with Rule 506(c) offerings, are allowed to invest as much as they want. However, investors who make less than the $200,000 threshold are limited. Investors who earn between $100,000 and $200,000 annually can invest up to 10% of their annual incomes. Investors who earn less than $100,000 annually can invest up to 5% of their incomes, or $2,000, whichever is greater. However, the catch is that these limits apply to all Title III investments across the board, not to individual offerings. This means that issuers must verify that a potential purchaser has not exceeded these thresholds by investing in *other* 4(a)(6) offerings within the same calendar year. With this in mind, it is understandable why the SEC is having trouble putting together rules that make any sense at all.

Title III investments also require the use of an intermediary. The JOBS Act has created what are termed “funding portals” through which such investments and offerings must flow. These intermediaries will undoubtedly increase issuer costs because they must be registered with the SEC. The Act allows existing registered broker / dealers to serve as intermediaries; however, it prohibits these intermediaries from taking commissions on successful finance campaigns, from offering investment advice or recommendations, from possessing or investing in offered securities, and from paying its employees sales-based commissions, making the proposition that existing broker / dealers will enter this market slim to none.

Finally, to add insult to injury, Title III also creates preliminary and on-going reporting requirements to the SEC. Unlike Rule 506(c) offerings, 4(a)(6) issuers must prepare investor disclosures to be filed with the SEC prior to the offering. Creating such disclosures is normally quite expensive. 4(a)(6) issuers will also, at a minimum, be required to submit annual reports, adding additional costs. These provisions will likely make equity crowdfunding under Title III prohibitively expensive and unattractive to all but the most desperate issuers.

These additional requirements largely remove many of the benefits enjoyed by 506(c) offerings. Issuers offering securities under 506(c) benefit by having the ability to raise an unlimited amount of funding with no per investor limits. Additionally, there are no disclosure or regular reporting requirements. Issuers are simply required to submit Form D to the SEC within 15 days of the first offer or sale.

D. Conclusion

The JOBS Act is an attempt at creating major reforms to existing securities regulations to allow and encourage a robust equity crowdfunding market. The hope is that the new rules will encourage and facilitate investment in early stage startups and projects that might otherwise not have access to necessary capital. It remains to be seen how the scenario will play out—and how the SEC will implement workable rules under Title III.

Undoubtedly, the fervor and enthusiasm surrounding crowdfunding will continue. The question becomes whether the same fervor that currently surrounds donation and rewards-based crowdfunding can be extended to the equity market. Expect more on this as it develops.

Endnotes

1. Jumpstart Our Business Startups Act, Pub. L. No.112-106, 126 Stat. 306 (2012) (the “Act”), *available at* http: / / www.gpo.gov / fdsys / pkg / PLA12publ106 / pdf / PLAW-112publ106.pdf.
2. 17 C.F.R. § 230.501(a) (2012).
3. The Act, § 201(a)(1) 126 Stat. at 313 (states that “[s]uch rules shall require the issuer to take reasonable steps to verify that purchasers of the securities are accredited investors, using such methods as determined by the Commission”).
4. 17 C.F.R. § 230.503(a)(1) (2008) (“An issuer offering or selling securities in reliance on § 230.504, § 230.505, or § 230.506 must file with the Commission a notice of sales containing the information required by Form D (17 CFR 239.500) for each new offering of securities no later than 15 calendar days after the first sale of securities in the offering…”).
5. *See* Eliminating the Prohibition Against General Solicitation and General Advertising in Rule 506 and Rule 144A Offerings, 77 Fed. Reg. 54464-01 (proposed Sept. 5, 2012) (to be codified at 17 C.F.R. pts. 230 and 239) (the “Proposing Release”).
6. *See* Eliminating the Prohibition Against General Solicitation and General Advertising in Rule 506 and Rule 144A Offerings, 78 Fed. Reg. 44771-01 (July 24, 2013) (the “Final Rules”).
7. Dodd–Frank Wall Street Reform and Consumer Protection Act, Pub. L. No. 111–203, 124 Stat. 1376, 1851 (2010) (“Dodd-Frank”), *available at* http: / / www.gpo.gov / fdsys / pkg / PLAW-111publ203 / pdf / PLAW-111publ203.pdf.
8. This section was substantially drafted with the assistance of information gleaned from the following presentations: Ron Suber, Crowdfunding: Past, Present, Future, Keynote Address at The Crowdfunding East Conference (Aug. 28, 2013); Brian Korn, Business Finance: U.S. Legal Framework and Introduction to Equity Crowdfunding, The Crowdfunding East Conference (Aug. 28, 2013).
9. The definition of a “security” is derived from the application of the economic realities test first espoused in the preeminent Supreme Court case *SEC v. W.J. Howey Co.*, 328 U.S. 293 (1946). According to the *Howey* test, an interest will be deemed a security if three conditions are present: (1) an investment of money has been made (2) in a common enterprise (3) with the expectation of profits, which

profits are expected to arise solely, or substantially, from the efforts of the promoter or third party.

10. This article will use the term “equity crowdfunding” to refer to this model.
11. A handful of states have passed equity crowdfunding rules governing offerings made within the state to residents of the state. These rules and their application are beyond the scope of this article.
12. Ianthe Jeanne Dugan, *Consumers Find Investors Eager to Lend*, Wall Street J., Aug. 7, 2013, at A1.
13. Spike Lee, *The Newest Hottest Spike Lee Joint*, Kickstarter, http://www.kickstarter.com/projects/spikelee/the-newest-hottest-spike-lee-joint.
14. 328 U.S. 293 (1946).
15. *Howey*, 328 U.S. at 298-99.
16. Brian Korn, Business Finance: U.S. Legal Framework and Introduction to Equity Crowdfunding, The Crowdfunding East Conference (Aug. 28, 2013).
17. *See* Revision of Certain Exemptions From Registration for Transactions Involving Limited Offers and Sales, 47 Fed. Reg. 11251-01 (adopted Mar. 16, 1982).
18. *See, e.g.*, Revision of Rule 504 of Regulation D, the “Seed Capital” Exemption, 64 Fed. Reg. 11090-01 (Mar. 8, 1999); Additional Small Business Initiatives, 58 Fed. Reg. 26509-01 (May 4, 1993).
19. 17 C.F.R. § 230.500 (2012).
20. 17 C.F.R. § 230.506(b) (1989).
21. Rule 506(b)(2)(ii) requires each purchaser in a Rule 506 offering who is not an accredited investor to possess, or the issuer must reasonably believe immediately before the sale of securities that such purchaser possesses, either alone or with his or her purchaser representative, “such knowledge and experience in financial and business matters that he or [or she] is capable of evaluating the merits and risks of the prospective investment.” *See* 17 C.F.R. § 230.506(b)(2)(ii) (1989).
22. 17 C.F.R. § 230.501(a) (2012).
23. *Id.*
24. *Id.* The Dodd-Frank Act changed the “net worth test” in 2011. Although it did not change the amount of the $1 million net worth test, it did change how that amount is calculated by excluding the value of a person’s primary residence. In December 2011, the SEC amended Rule 501 to incorporate this change. *See* Net Worth Standard for Accredited Investors, 76 Fed.Reg. 81793 (Dec. 29, 2011).
25. *See* Final Rules *supra*, note 6.
26. Dodd-Frank, Pub. L. No. 111–203, 124 Stat. 1376 (2010), *available at* http://www.gpo.gov/fdsys/pkg/PLAW-111publ203/pdf/PLAW-111publ203.pdf.
27. *See id.* at 1851.
28. Korn, *supra* note 16.
29. *See* Use of Electronic Media for Delivery Purposes, 60 Fed. Reg. 53458-01 (Oct. 13, 1995); Use of Electronic Media, 65 Fed. Reg. 25843-1 May 4, 2000).
30. 17 C.F.R. § 230.502 (2012).
31. *See* note 29, *supra*.
32. The Act, Pub. L. No.112-106,126 Stat. 306 (2012).
33. Korn, *supra* note 16.
34. *See* Vladimir Ivanov and Scott Bauguess, Div. of Econ. and Risk Analysis, U.S. Sec. and Exchange Comm’n, Capital Raising in the U.S.: An Analysis of Unregistered Offerings Using the Regulation D Exemption, *2009-2012* (2013), *available at* http://www.sec.gov/divisions/riskfin/whitepapers/dera-unregistered-offerings-reg-d.pdf. (The amount of capital raised through offerings under Regulation D may be larger than what is reported in Form D filings because, although the filing of a Form D is a requirement of Rule 503(a) of Regulation D, 17 C.F.R. § 230.503(a), it is not a condition to the availability of the exemptions under Reg. D. Further, once a Form D is filed, the issuer is not required to file an amendment to the filing to reflect changes that occur.).
35. *See infra* Section C.
36. *See* 17 C.F.R. § 230.506(c)(1).
37. *See* Final Rules, *supra*, note 6, at 44783.
38. 17 C.F.R. § 230.503(a)(1) (2008).
39. *Form D*, U.S. Sec. and Exchange Comm’n (Sept. 2013) http://www.sec.gov/about/forms/formd.pdf.
40. Dodd-Frank, Pub. L. No. 111–203, § 926, 124 Stat. 1376, 1851 (2010).
41. Disqualification of Felons and Other “Bad Actors” from Rule 506 Offerings, 78 Fed. Reg. 44730 (July 10, 2013).
42. Final Rules, 78 Fed. Reg. at 44778 (“This requirement is separate from and independent of the requirement that sales be limited to accredited investors, and must be satisfied even if all purchasers happen to be accredited investors.”).
43. *Id.*
44. *See, generally id.*
45. *Id.* at 44778 (“[W]hether the steps taken are ‘reasonable’ will be an objective determination by the issuer (or those acting on its behalf), in the context of the particular facts and circumstances of each purchaser and transaction.”).
46. *Id.* at 44778-79.
47. *Id.* at 44779.
48. *Id.*
49. *Id.*
50. *Id.*
51. *Id.* at 44779-80.
52. *Id.* at 44780.
53. *Id.*
54. *Id.* at 44780-82.
55. *Id.* at 44781 (emphasis added).
56. *Id.*
57. *Id.*
58. *Id.*
59. *Id.* The licenses of both attorneys and CPAs must be in good standing. *Id.* at fn. 124.
60. *Id.*
61. *Id.* at 44779-80.
62. Many companies have already entered the investor verification market. *See, e.g.*, Crowdentials, http://crowdentials.com/index.php; SeedInvest, https://www.seedinvest.com/.
63. The Act, Pub. Law 112-106, Title III, 126 Stat. 306, 315-23 (2012).
64. *See* Korn, *supra*, note 8.

***In October, the SEC voted unanimously to propose its Rules. That started a 90-day period for public comments following which the SEC will have an opportunity to review and make its final determination.**

Adam Beasley is the founding partner at Adam Beasley Law, P.C., where he advises clients in the music, film, television, start-up, and technology industries on matters ranging from drafting, editing and negotiating contracts to protecting and enforcing intellectual property rights. Prior to founding his current practice, Adam held positions at Universal Music Group, IAC, Inc., Gray Krauss Stratford Des Rochers, and the Ingber Law Firm. He can be reached at (347) 618-9452 or at adam@adambeasleylaw.com. For more information visit www.adambeasleylaw.com.

The NFL Concussion Settlement: A Win for Both Sides?

By Carrie Anderer

Introduction

On August 29, 2013, one week before the official start of the 2013 season, the National Football League (NFL or the League) agreed to pay an unprecedented $765 million to settle a lawsuit brought by more than 4,500 retired players suing the League over its treatment of concussions and potential concealment of links between football and brain injuries. The legal position advanced by the players centered on allegations that the NFL not only knowingly failed to protect players from the harm caused by concussions suffered on the field for decades, but actively and intentionally obscured medical evidence establishing the connection between concussions and debilitating brain injuries. The NFL argued that the resolution of the players' claims would require interpretation of the various collective bargaining agreements (CBAs) under which the players played, and therefore the claims were preempted by federal labor law and should be dismissed.[1]

U.S. District Judge Anita Brody ordered that the parties engage in mediation, and after nearly two months of negotiations, the proposed settlement was reached. While the settlement still needs to be approved by Judge Brody, she was quick to issue an order commending the parties in reaching an agreement.[2] Many consider the settlement to be a win for both sides—the retired NFL players in need of medical and financial assistance, many of whom are suffering from serious brain injuries, will be able to receive treatment sooner rather than later, and the NFL is relieved that the specter of these concussion-related lawsuits will no longer be hanging over the League. However, the breadth of the implications of the settlement for the NFL and its players, as well as other leagues or governing bodies and their players affected by concussion management and policy, remains unknown.

A Brief Overview of the History of the Litigation

On July 19, 2011, the first concussion lawsuit against the NFL was brought by 75 former NFL players in Los Angeles County Supreme Court.[3] Shortly after, on August 17, the first class action concussion lawsuit against the NFL was filed in the United States District Court for the Eastern District of Pennsylvania.[4] These lawsuits were followed by a wave of both class actions and individual lawsuits commenced in courts across the United States. Ultimately, there were so many cases that the NFL made a motion to consolidate the concussion cases within the United States Judicial Panel on Multidistrict Litigation pursuant to 28 U.S.C. § 1407.[5] On January 31, 2012, the Judicial Panel on Multidistrict Litigation issued an order consolidating these lawsuits into one "master" case of Multidistrict Litigation before Judge Anita Brody of the United States District Court for the Eastern District of Pennsylvania.[6]

According to the allegations of the Master Complaint,[7] the NFL had a "duty to provide players with rules and information to protect the players as much as possible from short-term and long-term health risks"[8] and to "take all reasonable steps necessary to ensure the safety of players."[9] The plaintiffs alleged that for decades, "the NFL failed to warn NFL players of the medical risks associated with repetitive head impacts during NFL games and practices."[10] Most significantly, the players alleged that the NFL willfully and intentionally concealed "the medically proven fact that repetitive MTBI[11] would lead to neurocognitive injuries in many NFL players,"[12] and that the NFL "knowingly and fraudulently concealed from then-current NFL players and former NFL players the risks of head injuries in NFL games and practices, including the risks associated with returning to physical activity too soon after sustaining a sub-concussive or concussive injury."[13]

In response to the Master Complaint, on August 30, 2012, defendants NFL and NFL Properties (NFLP)[14] filed a Memorandum of Law in support of their motion to dismiss the complaint.[15] The defendants made two main arguments: First, they argued that the plaintiffs' claims were preempted by Section 301 of the Labor Management Relations Act (LMRA). They stated, "LMRA preempts all state law claims—including tort claims—the resolution of which is substantially dependent upon or inextricably intertwined with an interpretation of the terms of a collective bargaining agreement, or that arise under a collective bargaining agreement."[16] In their memorandum, the defendants argued that in order to "resolve Plaintiffs' claims, the Court would be required to interpret the CBA, which not only addresses player safety, but also addresses the authority and responsibility relating to player safety of the NFL, the Clubs, and the Union, to determine whether the NFL had such duties."[17] Second, the defendants argued that the plaintiffs' claims are also preempted by Section 301 because they are premised on rights and obligations that arise under the CBAs themselves.[18] The defendants pointed out that the Master Complaint alleges that the NFL failed to implement rule changes in order to minimize head injury and failed to impose safety regulations to govern this health and safety problem.[19] The defendants argued that the CBAs "establish the duties of the NFL and its Clubs to provide medical care to NFL players," and similarly "establish the duty of the NFL and its Clubs to implement and enforce rules regarding professional football generally, and health and safety-related rules in particular."[20] In addition to these two main arguments, the defendants stated, "If any claim is found not to be preempted, the NFL intends to argue at a later date that such claims should be dismissed for failure to state a claim and failure to follow the agreed-upon grievance procedures, and also because they are time-barred."[21]

Without ruling on the defendants' motion to dismiss the complaint, on July 8, 2013, U.S. District Judge Anita Brody ordered that the parties engage in mediation to explore a settlement and to "determine if consensual resolution is possible."[22] She appointed retired United States District Judge Layn Phillips as mediator, and ordered that he report back to her on or before September 3, 2013 on the results of the mediation.[23] On August 29, 2013, Judge Brody announced that a proposed settlement had been reached:

> Earlier today, in accordance with the reporting requirements in my order of July 8, 2013, the Honorable Layn Phillips, the court-appointed mediator, informed me that the plaintiffs and the NFL defendants had signed a Term Sheet incorporating the principal terms of a settlement. Judge Phillips also reported that the proposed settlement provides for payments by the NFL defendants of $765,000,000 to fund the medical exams, concussion-related compensation, and a program of medical research for retired NFL players and their families, as well as to pay certain litigation expenses. In addition to this, the NFL will pay court-approved attorneys' fees. Furthermore, Judge Phillips advised me that the parties are preparing to submit a motion seeking preliminary court approval of the settlement that will incorporate the full documentation relating to the settlement.
>
> Of course, I reserve judgment on the fairness, reasonableness, and adequacy of the settlement until the motions for preliminary and final approval of the settlement are filed. At that time, counsel must present a complete explanation and justification for the settlement. Right now, however, I commend the parties and their counsel on their extensive and good faith negotiations and thank Judge Phillips for his diligence in assisting the parties in reaching an agreement.
>
> From the outset of this litigation, I have expressed my belief that the interests of all parties would be best served by a negotiated resolution of this case. The settlement holds the prospect of avoiding lengthy, expensive and uncertain litigation, and of enhancing the game of football.[24]

Breaking Down the Terms of the Proposed Settlement

Under the proposed terms of the settlement, the NFL and NFLP[25] will contribute $765 million to, *inter alia*, provide medical benefits and injury compensation for qualifying retired NFL football players and fund medical and safety research.[26] The settlement will include all players who have retired as of the date on which the Court grants preliminary approval to the settlement agreement, their authorized representatives, or family members.[27] The $765 million does not include attorneys' fees, which will need to be approved by the district court in a fee-setting proceeding.[28]

If the settlement is ultimately approved, the NFL and NFLP will pay $675 million to directly compensate former players who have suffered cognitive injury or their families.[29] This fund will be available "to retired players who present medical evidence of severe cognitive impairment, dementia, Alzheimer's, ALS, or to their families."[30] The exact amount awarded "will be based upon the specific diagnosis, as well as other factors including age, number of seasons played in the NFL, and other relevant medical conditions."[31] Therefore, while players do not need to prove causation, they will need to prove injury. This determination will be made by independent doctors working with court-appointed settlement administrators.[32] If the fund is exhausted prior to due compensation to players, the NFL may need to make an additional, one-time contribution of up to $37.5 million.[33]

In addition to the monetary relief awarded to the former players and their families, the NFL and NFLP will make payments in connection with the settlement as follows: (1) No more than $75 million for baseline medical exams; (2) a research and education fund for $10 million; (3) no more than $4 million to pay for the costs of notice to the members of the class of plaintiffs; (4) $2 million, representing one-half of the compensation of the Settlement Administrator for a period of 20 years; and (5) legal fees and litigation counsel (to be determined by the court).[34]

In order to determine the amount of compensation for each player who has suffered cognitive injury, or his family, eligible retired players may receive a "Baseline Medical Assessment," which will be used "to establish a qualifying diagnosis, either now or at a point in the future."[35] This baseline examination program will operate for a period of 10 years, after which any funds so allocated that have not been spent will be added to the fund for payment of monetary awards.[36]

With respect to the timing of payments, if the agreement receives preliminary approval from Judge Brody, the NFL will pay the costs of preparing and distributing notice to class members.[37] Retired players will have the opportunity to file objections to the settlement and Judge Brody will hold a hearing to decide whether to grant final approval.[38] If the settlement receives final approval, and all appeals have been concluded, the NFL will pay approximately 50% of the settlement amount over three years, and the balance over the following 17 years.[39]

Notably, the proposed settlement contains a key provision stating that the settlement does not constitute an admission of liability or a weakness of claims: "The settlement does not represent, and cannot be considered, an admission by the NFL of liability, or an admission that plaintiffs' injuries were caused by football. Nor is it an acknowledgement by the plaintiffs of any deficiency in their case. Instead, it represents a decision by both sides to compromise their claims and defenses, and to devote their resources to benefit retired players and their families, rather than litigate these claims."[40]

Finally, under the proposed settlement, no retired player will forfeit or become ineligible for any other benefits provided by the current CBA between the NFL and NFLP.[41]

Win-Win?

While the settlement amount has been criticized for being too small, especially in light of the number of claimants and the severity of their conditions, as well as the massive revenues generated by the NFL,[42] there are other factors to consider in evaluating its adequacy, fairness and reasonableness. While the players may have wanted more money, as well as an admission of guilt from the NFL, and the NFL may have wanted to ultimately succeed through litigating the case or settling the claims through arbitration pursuant to the collective bargaining agreements, the settlement amount and its terms represent the realities of the negotiation process.

How the Retired Players Benefit from the Settlement

By reaching an early resolution, the players who are currently suffering from serious, and sometimes debilitating, neurological conditions will be compensated with a substantial amount of money that will enable them to quickly receive the treatments they need.[43] Without a settlement, there were estimates that this litigation could have gone on for years, exceeding the life span of some of the players who are suffering and could thus benefit from medical treatment now and in the near future.[44] Many players will therefore be promptly relieved of significant and pressing medical and financial burdens.

There was also a very real possibility that some or all of the players' claims could have been dismissed.[45] Foremost, Judge Brody could have ruled that the players' claims were preempted by federal law. While the former players argued that the case should survive preemption because the CBAs do not protect the League against claims that the NFL fraudulently concealed the dangers of concussions,[46] it was uncertain that this argument would succeed. Furthermore, one of the most difficult hurdles the players faced was proving that head trauma from playing football, specifically in the NFL, is directly responsible for their impairments.[47] Under the settlement, players do not need to establish causation—compensation is based solely on a player's age and years in the league, without consideration of the position he played or the number of concussions he may have sustained.[48]

The players may also benefit by avoiding the pretrial discovery process. If the litigation had continued, the players would have been subjected to invasive discovery into every injury they ever sustained as a football player, at every level of play.[49] With the medical history of a player put into issue, that player would need to turn over medical records not only pertaining to the concussions he sustained, but also relating to other medical conditions and personal and psychological history.[50]

Even if the case proceeded to trial, regardless of the verdict, the appeals process would have continued well into the future, and at the end of the litigation process, the players could have ended up with nothing.[51] If a settlement was not reached and it was determined that the claims were preempted, the disputes would be resolved in private arbitrations, where damage awards are nominal as compared to potential jury awards or settlement.[52] Thus, with the settlement the players avoid certain risks and now have finality, certainty and timely compensation.[53]

How the NFL Benefits from the Settlement

For the NFL, the settlement eliminates major financial and legal threats looming over the sport of football. From a financial perspective, while the $765 million figure is certainly not insignificant, the NFL potentially faced billions of dollars in legal liability.[54] This figure represents less than 10% of the NFL's approximately $9 billion in annual revenue.[55]

From a legal perspective, the NFL was eager to reach some form of closure prior to the impending 2013 official start of the season, and, particularly, to avoid the pretrial discovery process.[56] If the litigation continued, the legal discovery process likely would have involved the exposure of damaging documents and witness deposition testimony, and additional evidence of misconduct on the part of the NFL.[57] Michael McCann, a legal analyst for *Sports Illustrated*, stated, "The [L]eague was alleged to have engaged in fraudulent conduct to conceal a concussion epidemic. Had documents that reflect poorly on [L]eague officials and team owners surfaced in discovery, they may have irreparably harmed the reputations of many connected to pro football."[58]

Thus, beyond the legal implications of such disclosure, which would become known to the public, the NFL would have suffered a potential public relations nightmare. Now, it is able to minimize public relations damage with respect to two particular groups—fans and Congress.[59] While settling the lawsuit will not necessarily change fan attitudes on the issue, nor will it inhibit members of Congress from considering ways to address the dangers of the sport, it will likely lead to a significant reduction in the negative publicity the NFL has been receiving.[60]

Finally, as mentioned earlier, as per the terms of the settlement, the NFL will not have to admit any wrongdoing. According to the agreement, "This settlement does not represent, and cannot be considered, an admission by the NFL of liability, or an admission that plaintiffs' injuries were caused by football."[61] As a result of this clause, one critic argues that "the NFL can forever deny that it could have mitigated its players' dementia or memory loss or that its focus ever strayed from the safety of football players, from professionals down to peewees."[62]

Does the Public Lose?

Despite the benefits to both the NFL and the retired players and their families, critics of the settlement have questioned how the agreement will adversely affect the public. Of course, big litigation generally results in settlement and the public does not have standing in this lawsuit, but nevertheless the possible effect of this settlement on the public is worth exploring.[63]

Scott Fujita, a recently retired NFL linebacker, writes, "But is this not an issue of public safety, especially when it comes to children? Did the plaintiffs not deserve to discover exactly what was known by the NFL about head injuries and when? What about the public?"[64] Expressing a similar sentiment, Paul Barrett, a senior writer at *Bloomberg Businessweek,* writes, "The adversarial system, in theory, unearths misconduct: Incriminating documents are disclosed, recalcitrant witnesses cross-examined. Legal compromise, in contrast, leaves buried secrets safely entombed. The plaintiffs in this case accused the NFL of seeking to suppress medical research linking on-field collisions to crippling and fatal illnesses. If it happened, that's some seriously evil behavior. Now we won't get a definitive answer."[65] Critics argue that because there will be no pretrial discovery or trial, the public will be effectively deprived of valuable information that would have enabled individuals to make informed decisions when it came to playing the game of football themselves, and parents to make informed decisions when it came to allowing their children to play the game.[66]

Furthermore, the NFL serves as the model for the college, high school and peewee levels—"It is one of the strangest dynamics in sport: the NFL, a [L]eague for highly compensated adults, effectively sets the policies for children playing for free. The governing bodies for Pop Warner, high school and college football changed most of their rules regarding concussions only after the NFL did so. In some ways, youth football still has to catch up with the professional game. The NFL has eliminated much of the sport's contact during practices, yet high schools continue unperturbed."[67] Thus, the settlement allows the actions of the NFL to be effectively absolved, while there remains a "legion of young players who have long been endangered by the [L]eague's actions," none of whom will be compensated.[68]

Settlement Implications: The NFL and Beyond

If the terms of the settlement are ultimately approved by Judge Brody, some open issues remain. Foremost, players may choose to opt out of the settlement and pursue their individual claims in court, as the settlement does not bar future suits by other players.[69] However, according to Judge Phillips:

> For a variety of reasons, the underlying theory of this lawsuit about what took place in the past would be difficult to replicate in the future. Everyone now has a much deeper and more substantial understanding about concussions, and how to prevent and manage them, than they did 20 or even 10 years ago, and the information conveyed to players reflects that greater understanding. In addition, the labor law defenses asserted by the NFL would represent a very substantial barrier to asserting these kinds of claims going forward. The combination of advances in medical research, improved equipment, rules changes, greater understanding of concussion management, and enhanced benefits should, and hopefully will, prevent similar lawsuits in the future.[70]

Furthermore, the NFL is not the only entity facing these types of claims brought by former athletes. In 2011, Adrian Arrington, a former Eastern Illinois football player, along with four other former college athletes, commenced a concussion lawsuit against the National Collegiate Athletic Association (NCAA) in the U.S. District Court for the Northern District of Illinois.[71] In July 2013, the plaintiffs filed for class-action certification.[72] According to Marc Edelman, an associate professor of law at the City University of New York and adjunct professor at Fordham, "For those that believe concussion litigation against the NFL is big, they haven't seen anything yet compared to the prospective action against the NCAA. In my mind, concussion litigation against the NCAA has a far greater likelihood of succeeding than concussion litigation against the NFL."[73]

There is also a high probability of the commencement of litigation involving other sports on the horizon, including the National Hockey League and Major League Soccer. However, as with the NFL litigation, these concussion lawsuits face hurdles, particularly in establishing that a league or a governing body knowingly withheld information about the dangers of head injuries.[74]

The inherent limits of tort litigation may therefore ultimately inhibit players, including both professional and amateur athletes, from being adequately compensated for the damage they have sustained in their sport due to head injury. In this way, the NFL concussion litigation and settlement have raised serious doubts as to whether injured players will be able to turn to the courts to effectively vindicate their concussion claims in the future, and whether the courts can effect meaningful change in the realm of concussion management and policy.

Endnotes

1. Section 301 of the federal Labor Relations Management Act states that if there is an existing CBA between parties, any grievance should be resolved pursuant to the terms of such agreement. 29 U.S.C.A. § 185.
2. Order, *In Re National Football League Player's Concussion Litigation*, No. 2:12-cv-02323-AB (E.D. Pa. Aug. 29, 2013).
3. Plaintiffs' Complaint for Damages and Demand for Jury Trial, *Maxwell v. National Football League*, No. BC 465 842 (Cal. Super. Ct. July 19, 2011). The named defendants included the National Football League, NFL Properties, LLC, and various defendants related to Riddell, Inc., the helmet manufacturer. Despite the large number of plaintiffs, the lawsuit was not brought as a class action.
4. Class Action Complaint, *Easterling v. National Football League*, No. 2:11-CV-05209-AB (E.D. Pa. Aug. 17, 2011).
5. 28 U.S.C. § 1407(a) ("[w]hen civil actions involving one or more common questions of fact are pending in different districts, such actions may be transferred to any district for coordinated or consolidated pretrial proceedings.").
6. Case Management Order No. 1, *In Re National Football League Player's Concussion Litigation*, No. 2:12-cv-02323-AB (E.D. Pa. Mar. 6, 2012).
7. Pursuant to a case management order (Case Management Order No. 2, *In Re National Football League Player's Concussion Litigation*, No. 2:12-cv-02323-AB (E.D. Pa. April. 26, 2012)), on June 7, 2012, the plaintiffs filed a Master Administrative Long-Form Complaint (Plaintiffs' Master Administrative Long-Form Complaint, *In Re National Football League Player's Concussion Litigation*, No. 2:12-cv-02323-AB (E.D. Pa. June 7, 2012)) which combined existing lawsuits alleging that the NFL failed to provide former players with information linking football-related head trauma with memory loss, brain damage and other debilitating long-term medical issues. The plaintiffs also filed a Master Administrative Class Action Complaint for Medical Monitoring (Plaintiffs' Master Administrative Class Action Complaint for Medical Monitoring, *In re National Football League Player's Concussion Litigation*, No. 2:12-cv-02323-AB (E.D. Pa. June 7, 2012)). On July 17, 2012, the plaintiffs filed an Amended Master Complaint. (Plaintiffs' Amended Master Administrative Long-Form Complaint, *In re National Football League Player's Concussion Litigation*, No. 2:12-cv-02323-AB (E.D. Pa. July 17, 2012).
8. *Id.* ¶ 6.
9. *Id.* ¶ 90.
10. *Id.* ¶ 102.
11. MTBI stands for "mild traumatic brain injuries" caused by concussive and sub-concussive impacts. *Id.* ¶ 2.
12. *Id.* ¶¶ 8, 248.
13. *Id.* ¶ 276.
14. NFL Properties is the licensing and merchandising arm of the NFL.
15. Memorandum of Law of Defendants National Football League and NFL Properties LLC in Support of Motion to Dismiss the Amended Master Administrative Long-Form Complaint on Preemption Grounds, *In re National Football League Player's Concussion Litigation*, No. 2:12-cv-02323-AB (E.D. Pa. Aug. 30, 2012).
16. *Id.* 14.
17. *Id.* 2.
18. *Id.* 30.
19. *Id.* 30-31.
20. *Id.* 31.
21. *Id.* 6 n.2.
22. Order, *In re National Football League Player's Concussion Litigation*, No. 2:12-cv-02323-AB (E.D. Pa. July 8, 2013); *see also* Ken Belson, *Judge Orders NFL Concussion Case to Mediation*, N.Y. Times, July 8, 2013.
23. Order, *In re National Football League Player's Concussion Litigation*, No. 2:12-cv-02323-AB (E.D. Pa. July 8, 2013).
24. Order, *In re National Football League Player's Concussion Litigation*, No. 2:12-cv-02323-AB (E.D. Pa. Aug. 29, 2013).
25. Another defendant named in the Master Complaint is Riddell (which is being sued under a series of names). The settlement, however, does not include the Riddell defendants. *See id.* Therefore the case against Riddell can proceed.
26. Press Release, Irell & Manella LLP, Alt. Dispute Resolution Ctr., NFL, Retired Players Resolve Concussion Litigation; Court-Appointed Mediator Hails "Historic" Agreement, Principal Terms of the NFL Litigation Settlement (Aug. 29, 2013) [hereinafter Proposed Settlement].
27. *Id.*
28. *Id.*
29. *Id.*
30. *Id.*
31. *Id.*
32. *Id.*
33. *Id.*
34. *Id.*
35. *Id.* Players who exhibit symptoms of cognitive injury but have not been diagnosed with a "qualifying condition" are still entitled to medical benefits and testing, and if they are to be diagnosed with a "qualifying condition" in the future, at that time they will be entitled to financial compensation. Players who do not currently exhibit any symptoms of cognitive injury are also entitled to the baseline medical testing. *See FAQ's: The Proposed NFL "Class" Settlement*, http://www.playerinjury.com/faq/.
36. Proposed Settlement, *supra* note 26.
37. *Id.*
38. *Id.*
39. *Id.*
40. *Id.*
41. *Id.*
42. The NFL generated $9.5 billion in revenue in 2012. Daniel Kaplan, *The Road to $25 Billion*, Sports Bus. J. (Jan. 28, 2013), http://www.sportsbusinessdaily.com/Journal/Issues/2013/01/28/In-Depth/NFL-revenue-streams.aspx.
43. According to Christopher Seeger, a lawyer for the plaintiffs, "The big picture was that we got immediate care to the retired players, and I think we accomplished that." Ken Belson, *N.F.L. Agrees to Settle Concussion Suit for $765 Million*, N.Y. Times, Aug. 29, 2013; *see also NFL Concussion Settlement Unprecedented in Sports*, Associated Press (Aug. 31, 2013), http://www.timesfreepress.com/news/2013/aug/31/nfl-concussion-settlement-unprecedented-sports/?print.
44. *See* Jenny Vrentas, *Concussion Settlement: The Debate Resets*, Monday Morning Quarterback (Sept. 2, 2013), http://mmqb.si.com/2013/08/30/concussion-settlement-the-debate-resets/; *see*

also Travis Waldron, *What Does the NFL's Concussion Settlement Mean for the Future of Football?*, ThinkProgress.org, Aug. 29, 2013, http://thinkprogress.org/sports/2013/08/29/2552921/nfls-concussion-settlement-mean-future-football/.

45. Michael McCann, *Examining What Happens Next in NFL Concussion Lawsuit Settlement*, Sports Illustrated (Aug. 29, 2013), http://sportsillustrated.cnn.com/nfl/news/20130829/what-happens-next-in-nfl-concussion-lawsuit-settlement/.

46. Darren Rovell, *League Files to Dismiss Lawsuits*, ESPN (Aug. 30, 2012), http://espn.go.com/nfl/story/_/id/8314320/nfl-files-motion-dismiss-more-140-concussion-lawsuits.

47. *See* Sean Gregory, *For Retired NFL Players, Concussion Settlement a Safe Bet*, Time (Aug. 30, 2013), http://keepingscore.blogs.time.com/2013/08/30/for-retired-nfl-players-concussion-settlement-a-safe-bet/ (Paul Anderson, a lawyer who runs the nflconcussion.com blog stated, "That's what ultimately kept this settlement out of the billions. A concussion isn't like a broken arm, a clear outcome of one disastrous play. Concussions often go unreported. It's difficult for players to disprove that head trauma from, say, high school or college football triggered their impairment. Even if, in the discovery phase of this case, evidence revealed that the NFL clearly tried to cover up its concussion crisis, the scientific challenge would still remain.").

48. Ken Belson, *N.F.L. Agrees to Settle Concussion Suit for $765 Million*, N.Y. Times, Aug. 29, 2013.

49. Jodi Balsam, *Basics of the NFL Settlement of Retired Players' Concussion Litigation*, The Official Review (Sept. 4, 2013), http://www.theofficialreview.com/basics-of-the-nfl-concussion-settlement/.

50. *Id.*

51. McCann, *supra* note 45.

52. *See* Lester Munson, *A Case the NFL Didn't Want Mentioned*, ESPN (April 9, 2013), http://espn.go.com/espn/otl/story/_/id/9152465/judge-focus-security-guards-case-indicate-trouble-nfl-concussion-lawsuit.

53. Bill Barnwell, *What You Need to Know About the NFL's $765 Million Concussion Settlement*, Grantland.com (Aug. 29, 2013), http://www.grantland.com/blog/the-triangle/post/_/id/72867/what-you-need-to-know-about-the-nfls-765-million-concussion-settlement.

54. *Id.* As recently as July 2013, Bloomberg Businessweek estimated that the NFL could end up settling for $5 billion. In August 2012, *The Sporting News* reported that a settlement could reach $10 billion. *Id.*

55. Travis Waldron, *What Does the NFL's Concussion Settlement Mean for the Future of Football?*, ThinkProgress.org, Aug. 29, 2013, http://thinkprogress.org/sports/2013/08/29/2552921/nfls-concussion-settlement-mean-future-football/; *see also* Jenny Vrentas, *Concussion Settlement: The Debate Resets*, Monday Morning Quarterback (Sept. 2, 2013), http://mmqb.si.com/2013/08/30/concussion-settlement-the-debate-resets/ ("The bill will come to about $30 million per franchise, or around 10% of the average team's 2013 revenue, based on *Forbes* numbers."); Bill Barnwell, *What You Need to Know About the NFL's $765 Million Concussion Settlement*, Grantland.com, (Aug. 29, 2013), http://www.grantland.com/blog/the-triangle/post/_/id/72867/what-you-need-to-know-about-the-nfls-765-million-concussion-settlement ("ESPN's most recent contract extension with the league, for *Monday Night Football* alone, pays the NFL $1.95 billion per season. And that's for one game per week. In all, *Forbes* estimates that the NFL will receive $7 billion per year in media rights over the next 15 years. That means $765 million is barely a drop in the bucket, especially when you get to how the money will be paid out.").

56. Dan Diamond, *4,000 Ex-Players vs. NFL: Landmark Concussion Case Begins*, Forbes (April 19, 2013), http://www.forbes.com/sites/dandiamond/2013/04/09/nfl-concussion-case-a-primer-as-arguments-begin/.

57. *Id.*

58. McCann, *supra* note 45.

59. *Id.*

60. *Id.*

61. Proposed Settlement, *supra* note 26.

62. Alan Schwarz, *Rules Trickle Down; Settlement Money Won't*, N.Y. Times, Aug. 29, 2013.

63. Some critics have drawn an analogy to this lawsuit and the Big Tobacco litigation. *See* Greg Mihoces, *Judge Orders Mediation on NFL Concussion Suits*, USA Today (July 11, 2013), http://www.usatoday.com/story/sports/nfl/2013/07/11/nfl-players-concussions-lawsuits/2510275/; (Michael Kaplen, a practicing attorney in the field of traumatic brain injury, states, "It's like if the tobacco companies settled cases before all the court discovery took place, we wouldn't know what they knew, when they knew it, and how they hid the information.").

64. Scott Fujita, *Mixed Feelings Over N.F.L. Concussion Settlement*, N.Y. Times, Sept. 2, 2013.

65. Paul M. Barrett, *The NFL Concussion Settlement: Four Blunt Points*, Bloomberg Businessweek (Aug. 30, 2013), http://www.businessweek.com/articles/2013-08-30/the-nfl-concussion-settlement-four-blunt-points.

66. *See, e.g.*, Dave Zirin, *The NFL Concussion Deal: Rotten from All Sides*, The Nation (Aug. 30, 2013), http://www.thenation.com/blog/175977/nfl-concussion-deal-rotten-all-sides#.

67. Alan Schwarz, *Rules Trickle Down; Settlement Money Won't*, N.Y. Times, Aug. 29, 2013.

68. *Id.*

69. McCann, *supra* note 45 ("In order for the settlement to have such legal effect, the NFLPA and NFL would need to collectively bargain an agreement that the settlement has such an effect. This agreement would be amended to the collective bargaining agreement and would be incorporated by reference into the CBA. There is no indication yet whether the NFL and NFLPA will reach such an agreement, but expect it to happen at some point.").

70. Proposed Settlement, *supra* note 26; *see also* Jodi Balsam, *Basics of the NFL Settlement of Retired Players' Concussion Litigation*, The Official Review (Sept. 4, 2013), http://www.theofficialreview.com/basics-of-the-nfl-concussion-settlement/.

71. Rachel Axon, *Does NCAA Face More Concussion Liability Than NFL?*, USA Today Sports (July 25, 2013), http://www.usatoday.com/story/sports/ncaaf/2013/07/25/ncaa-concussion-lawsuit-adrian-arrington/2588189/.

72. *Id.*; *see also* Marc Edelman, *Is Concussion Litigation the Next Big Threat to the NCAA?*, Forbes (June 6, 2013), http://www.forbes.com/sites/marcedelman/2013/06/06/is-concussion-litigation-the-next-big-threat-to-the-ncaa/.

73. Axon, *supra* note 71.

74. Belson, *supra* note 48 ("The big difference between the N.F.L. and other cases is that in the N.F.L. case, the [L]eague may have known more than the players and taken active steps to misinform them," said Gabe Feldman, the director of the sports law program at Tulane University. "But as far as I know, we don't have that in other leagues. That won't necessarily stop other lawsuits, but it will prompt other leagues to get ahead of this.").

Carrie Anderer is an Associate at Kantor, Davidoff, Mandelker, Twomey & Gallanty, P.C. in Manhattan where her practice focuses on a wide variety of complex commercial litigation matters. She is also a member of several sports law associations. Carrie received her B.A. from Columbia University in 2006, and her J.D. from Brooklyn Law School in 2011. She can be reached by telephone at (212) 682-8383 or via email at anderer@kantordavidoff.com.

YouTube Monetization

By Jordan Greenberger and Elizabeth Cohen

I. Introduction

YouTube offers Content Identification technology (Content ID), an automated free service that allows copyright owners to receive revenue from user-uploaded videos that otherwise likely infringe the owners' copyrights because the videos utilize protected works without authorization. The system operates like this: a copyright owner, such as a record company, delivers reference files and metadata of content it owns to YouTube, which then compares every user-uploaded video to its library of reference files. When a match between a reference file and a newly uploaded file is found, e.g., a user-generated video that partially comprises a popular song, YouTube can either "monetize," block, or track viewing metrics of the video based on the copyright owner's pre-stated preference.

To copyright owners such as music and entertainment companies, the ability to not only police / block infringing material, but also to "monetize" on-line user uploaded videos comprising entirely or partially of the copyright owner's content, is attractive. The copyright owner may have a new revenue stream. However, utilizing the service may expose the copyright owner to litigation risks. This article discusses business considerations and litigation risks that content owners should evaluate in using the Content ID service.

II. Business Considerations

A content owner who chooses to become a YouTube Partner is enabled for Content ID, which allows content owners to upload the copyrighted material they own, whether compositions, master recordings or films, and then such material is scanned and each is given a unique "fingerprint." YouTube can then automatically identify user-uploaded or user-generated content (UGC) that is using the content owner's copyrighted material. Once such UGC is identified by Content ID, the Partner then has one of three options: (1) block the use; (2) track the use; or (3) monetize the use and receive revenue earned from advertisements placed before, after, during or alongside such UGC using the material.

Why would a copyright owner choose to enter into a revenue sharing deal with YouTube? The reason above all else is to maximize income generation. YouTube's Content ID has aided in the creation and expansion of revenue streams that stem from the (possibly illegal) use of a copyright owner's copyrighted material. Until very recently, Content ID only allowed the copyright owner to monitor illegal uses. Now, instead of relying solely on the Digital Millennium Copyright Act's (DMCA) governing takedown process to remove infringing material, copyright owners can also put Content ID to a much more productive and satisfying use, thus shifting Content ID's structure from one of penalizing YouTube users to fostering creativity and interest in the copyright owner's material while providing a method to monetize it.

The days of the "whack a mole" approach to infringing content continue to be frustrating and resource-wasting from the copyright owner's perspective. Content ID provides an opportunity to reduce the copyright owner's burdensome job of scouring YouTube for illegal uses of his or her material and aid in its removal. The power has now been shifted more in favor of the copyright owners, who can profit from the creative reuse of their material. This is a paradigm shift from a world of censorship to a world of collaboration, or at least reluctant bribed consent ex post facto.

One of the benefits of becoming a YouTube Partner as a copyright owner is YouTube's Copyright Management System (CMS). With CMS, the Partner uploads audio, visual or audiovisual content (the Asset) and metadata of the Asset through the CMS Uploader application and then sets the policy on the use of such Asset (block, track or monetize). The Partner has a "Claim" on the specific UGC that contains such Asset. The Partner can then review, alter or manage all Claims and Assets via the backend of his or her CMS account, making the incredibly vast material on YouTube much more manageable from the copyright owner's perspective, thereby having more control over protected material on the Internet.

While far from perfect, CMS creates an effective system for managing Assets, fixing incorrect ownership information and reviewing any Claims to either monetize or remove infringing material. If a YouTube user reaches out to a Partner and posits that the user's UGC was incorrectly removed or blocked, the Partner can quickly and easily reference the video and Claim at issue and pinpoint which Asset was being used without the proper permission. It will be interesting to see whether other uploader websites will adopt a system similar to CMS for reviewing and monetizing content on the Internet, and how any such sites may improve and expand on the CMS model and Content ID technology.

Aside from the monetary gains, YouTube Partners can increase exposure—not only for new songwriters and artists, but it also could mean a rebirth of popularity for catalog artists as well. All it takes is one insanely popular cat video using an obscure 1970's tune synched to its visuals to go viral, and another "Gangnam Style" or "Harlem Shake" sensation is created, which can, if properly monetized, create revenue for a work that has been tucked away for decades.

Content ID and the monetization of UGC are also serving to ease some of the tension that has built up over past years between the content industry and the consumer / fan / music listener. It is a chance to repair this broken relationship that was once aggravated through lawsuits against grandmas and school children who were mostly just music lovers penalized for what was indeed the illegal use of copyrighted materials. Instead of immediately removing infringing material, Content ID has created a mutually beneficial relationship where the YouTube user can show appreciation for the music he or she loves in a creative personal manner and the copyright owner, artist and songwriter can still earn and benefit from such (re)use.

While Content ID technology has created additional revenue for copyright owners, artists and songwriters, there is of course room for improvement…and complaints. The implementation of the monetization system on content means an inundation of advertisements. With more ads comes more frustration for YouTube viewers. While ads in the beginning of a YouTube video that allow the viewer to click "Skip This Ad" generate the most money because they are the most effective in capturing engaged consumers, they have the potential of losing viewers of the copyright owner's content. Time will tell how effective this advertising model remains.

With regard to the Content ID technology, there is certainly room for improvement when it comes to detecting cover songs of copyrighted compositions. If these uses go undetected, it cuts out music publishers from possible additional revenue they could be earning, thus shortchanging the songwriters. Content ID is not always able to detect melodies and a publisher would need substantial manpower to fully monitor the massive amounts of UGC that may contain a cover. It becomes a struggle for music publishers to stay ahead of the curve instead of only remaining reactionary to these uses.

Regarding the revenue created, earned and paid out with the implementation of Content ID and monetization of content, there is a lack of transparency in YouTube's revenue generation and, therefore, its sharing model. Publishers and record labels are left in the dark, as the revenue tracking and reporting provided by YouTube is limited. There is no clear formula to determine if one is in fact receiving one's "correct" share of revenue. To further exacerbate the matter, the revenue reported through YouTube's analytics and on a content owner's Google AdSense account (the account needed in order to actually receive money for the use of one's material on YouTube) does not necessarily match the checks copyright owners receive. This makes for difficult accounting practices and uneasy audit reviews when the copyright owner is unable to explain any such discrepancies to its writers or artists. Currently, YouTube has no answer or explanation for these discrepancies other than a shrug and a "be thankful you're getting anything" attitude.

Moving forward, YouTube and other similar models should be able to address such concerns. This in turn will lead to further growth of revenue and a continued use of the Content ID system, as well as make room for improvements in technology and a more transparent reporting system to break down the revenue sharing results. It is both YouTube's and copyright owners' joint responsibility to prevent potential confusion in the marketplace about copyright laws, rules and regulations amongst the users but still foster a sense of collaboration and creativity with the copyrighted material in a designated space, such as YouTube.

III. Litigation Risks

In the event there is copyright litigation concerning a work that a content owner has monetized using the Content ID program, the alleged infringer may point to Content ID to bolster an affirmative defense of "abandonment" or "license." "…abandonment of copyright requires: (1) an intent by the copyright holder to surrender rights in the work; and (2) an overt act evidencing that intent."[1] Put differently, "the plaintiff's acquiescence in the defendant's infringing acts may, if continued for a sufficient period of time and if manifested by overt acts, result in an abandonment of copyright."[2] In such cases, the abandonment is a defense for all acts occurring after the acquiescence.[3] However, copyright owners can abandon some rights without abandoning all.[4] Abandonment is also a defense to common law copyright claims.[5] Related to abandonment are the defenses of estoppel, waiver, or ratification.[6]

Examples of abandonment include:

- The copyright owner authorized or acquiesced in wide circulation of a large volume of the copyrighted material, a cartoon of a grinning boy.[7]
- The plaintiffs referred in writing to others as the owners and developers of computer software.[8]
- The author of a poem did not object to a psychiatrist's dissemination of thousands of copies of the poem to his patients, and the author affirmatively stated that he would not object.[9]
- Under the 1909 Copyright Act, general publication of the work without the prescribed copyright notice resulted in the forfeiture of any copyright.[10]

In sum, copyright owners may be found to have abandoned their copyrights when they permitted the circulation of their works into the public without any restrictions and / or notice that the works were copyrighted.[11]

Does use of Content ID result in abandonment? Copyright defenders may try to draw a parallel to the Content ID program: the copyright owner of a sound recording permits the circulation of its work in the public (on YouTube) without restrictions, without notice that the work is protected by copyright, and rather than take affirmative steps to enforce, instead permit the unauthorized use while deriving revenue. Of course, copyright owners will be quick to point out that passive acts, such as silence or inaction, are rarely found to constitute abandonment.[12] "[F]ailure to pursue third-party infringers has regularly been rejected as a defense to copyright infringement or as an indication of abandonment."[13] Assertions of proprietorship, even if in a "less than aggressive manner" (e.g., if unwarranted by the monetary value of the works), have defeated an abandonment defense.[14] Expending resources to enforce the copyright, even if in the context of another unauthorized use, may defeat an abandonment defense.[15]

A defendant may also raise the defense of "implied license." A license "immunizes the licensee from a charge of copyright infringement, provided that the licensee uses the copyright as agreed with the licensor."[16] Where the dispute turns on whether there is a license at all, the burden is on the alleged infringer to prove the existence of the license.[17] Additionally, "a license for one use does not equate to a license for all uses."[18] A nonexclusive license may be granted orally, or may be implied from conduct.[19] "The grant of a license may be implied by 'objective conduct that would permit a reasonable person to conclude that an agreement to use a copyrighted work had been reached.'"[20] "A nonexclusive license may be implied from a 'lack of objection' where the copyright owner knows about the use of the work."[21]

Does use of Content ID result in an implied license? The alleged infringer may draw a parallel: the owners of copyright in sound recordings know about the unauthorized uses, do not object, and instead permit the unauthorized uses while deriving revenue (which is analogous to royalties). However, there is also authority that in order for an implied license to be found, there must be a "meeting of the minds as determined by contract law."[22] For example, "…courts have found implied licenses in 'narrow' circumstances where one party created a work [at the] other's request and handed it over, intending that [the other] copy and distribute it."[23] Accordingly, a content owner may assert that it has no "meeting of the minds" with the unauthorized user; the only "meeting of the minds" is the owner's agreement with YouTube to monetize the use. Additionally, even if there was a "meeting of the minds," the owner may prevail by showing that any implied license was terminated, such as by sending a cease and desist letter.[24]

IV. Conclusion

Monetizing otherwise likely infringing material online is attractive to copyright owners and the artists, songwriters and creators they represent. Copyright owners who utilize monetization services like Content ID should be aware of the pros and cons of the service, and also potential litigation risks.

Endnotes

1. Capitol Records, Inc. v. Naxos of Am., Inc., 372 F.3d 471, 483-4 (2d Cir. 2004), *certified question accepted*, 3 N.Y.3d 666, 817 N.E.2d 820 (2004) *and certified question answered*, 4 N.Y.3d 540, 830 N.E.2d 250 (2005).
2. Coach, Inc. v. Kmart Corporations, 756 F. Supp. 2d 421, 427 (S.D.N.Y. 2010) (citing Basic Books, Inc. v. Kinko's Graphics Corp., 758 F. Supp. 1522, 1540 (S.D.N.Y. 1991)). *See also*, Hadady Corp. v. Dean Witter Reynolds, Inc., 739 F. Supp. 1392, 1398-99 (C.D. Cal. 1990) (stating standard for copyright abandonment).
3. Melville B. Nimmer & David Nimmer, Nimmer on Copyright, § 13.07, at 13–135 (2013).
4. Melchizedek v. Holt, 792 F. Supp. 2d 1042, 1051 (D. Ariz. 2011) (citing Micro Star v. FormGen Inc., 154 F.3d 1107, 1114 (9th Cir. 1998)).
5. *Capitol*, 372 F.3d at 483-84.
6. Cafferty v. Scotti Bros. Records, Inc., 969 F. Supp. 193, 199 (S.D.N.Y. 1997); Hayden v. Chalfant Press, Inc., 177 F. Supp. 303, 307-08 (S.D. Cal. 1959).
7. Stuff v. E.C. Publ'ns, Inc., 342 F.2d 143 (2d Cir. 1965) (at pp. 144-45 "…a great volume of nearly identical prints had appeared over a long period and that plaintiff's husband had been most derelict in preventing others from infringing his copyright"), *cert. denied*, 382 U.S. 822, 86 S.Ct. 50, 15 L.Ed.2d 68 (1965).
8. Rouse v. Walter & Associates, L.L.C., 513 F. Supp. 2d 1041, 1069-70 (S.D. Iowa 2007).
9. Bell v. Combined Registry Co., 397 F. Supp. 1241, 1249 (N.D.Ill. 1975), *aff'd*, 536 F.2d 164 (7th Cir. 1976).
10. Warner Bros. Entm't v. X One X Prods., 644 F.3d 584, 592-95 (8th Cir. 2011); Lopez v. Elec. Rebuilders, Inc., 416 F. Supp. 1133, 1135 (C.D. Cal. 1976).
11. Clark Equip. Co. v. Harlan Corp., 539 F. Supp. 561, 569 (D. Kan. 1982).
12. Melville B. Nimmer & David Nimmer, Nimmer on Copyright, § 13.07, at 13–134 (2013); *see also* Basic Books, Inc. v. Kinko's Graphics Corp., 758 F. Supp. 1522, 1540 (S.D.N.Y. 1991).
13. Capitol Records, Inc. v. Naxos of Am., Inc., 372 F.3d 471 (2d Cir. 2004) (citing Paramount Pictures Corp. v. Carol Publ'g Grp., 11 F. Supp. 2d 329, 337 (S.D.N.Y. 1998)).
14. Lottie Joplin Thomas Trust v. Crown Publishers, Inc., 456 F. Supp. 531, 535 (S.D.N.Y. 1977), *aff'd*, 592 F.2d 651 (2d Cir. 1978). *See also* Nat'l Comics Publ'ns Inc. v. Fawcett Publ'ns Inc., 191 F.2d 594, 597-98 (2d Cir. 1951), *supplemented sub nom.*, Nat'l Comics Publ'ns Inc. v. Fawcett Publ'ns Inc., 198 F.2d 927 (2d Cir. 1952).
15. Paramount Pictures Corp. v. Carol Pubi'g Grp., 11 F. Supp. 2d 329, 337 (S.D.N.Y. 1998), *aff'd sub nom.*, Paramount Pictures Corp. v. Carol Publ'g Grp., Inc., 181 F.3d 83 (2d Cir. 1999).
16. Davis v. Blige, 505 F.3d 90, 100 (2d Cir. 2007).
17. Tasini v. New York Times Co., 206 F.3d 161, 171 (2d Cir. 2000).
18. Agence France Presse v. Morel, 2013 WL 146035, *12 (S.D.N.Y. Jan. 14, 2013) (citing Gilliam v. Am. Broadcasting Cos., 538 F.2d 14, 20 (2d Cir. 1976)).
19. Graham v. James, 144 F.3d 229, 235 (2d Cir. 1998) (quoting Melville B. Nimmer & David Nimmer, Nimmer on Copyright, § 10.03(a)(7)).
20. SimplexGrinnell LP v. Integrated Systems & Power, Inc., 642 F. Supp. 2d 167, 191-92 (S.D.N.Y. 2009) (quoting SHL Imaging, Inc. v. Artisan House, Inc., 117 F. Supp.2d 301, 317 (S.D.N.Y. 2000) (internal quotations omitted)).
21. *Id.* at 193 (citing Keane Dealer Services, Inc. v. Harts, 968 F. Supp. 944, 947 (S.D.N.Y. 1997). *See also*, EMI Latin v. Bautista, 2003 WL 470333, *13 (S.D.N.Y. Feb. 24, 2003) (citing *Keane Dealer* and Viacom Int'l, Inc. v. Fanzine Int'l, Inc., 2000 WL 1854903, at *3-5 (S.D.N.Y. July 12, 2000) ("In certain circumstances, failure by the copyright owner to object to reproduction of copyrighted works may provide the basis for implying a nonexclusive license, but this basis for an implied license is available only when the owner's silence is coupled with knowledge of the copying.").
22. Zappa v. Rykodisc, Inc., 819 F. Supp. 2d 307, 319 (S.D.N.Y. 2011).
23. *Id.* at 319 (quoting SmithKline Beecham Consumer Healthcare, L.P. v. Watson Pharm., Inc., 211 F.3d 21 (2d Cir. 2000)).
24. Ulloa v. Universal Music and Video Distribution Corp., 303 F. Supp. 2d 409, 416-17 (S.D.N.Y. 2004).

Elizabeth Cohen is the Senior Director of Global Licensing at ABKCO Music & Records, Inc. in New York, New York and also handles the company's Business and Legal Affairs matters. Elizabeth may be reached at ecohen@abkco.com.

Jordan Greenberger is an associate in the IP and Litigation Departments of Moses & Singer LLP in New York, New York. Jordan may be reached at jgreenberger@mosessinger.com.

It's in the Game: *Keller v. Electronic Arts* and the Future of College Sports Video Games

By Michael W. Rosen

I. Introduction

"And number five for Kansas State leaves the huddle to line up under center," said Brad Nessler, a National Collegiate Athletic Association (NCAA) football announcer.[1]

"Yeah, Brad. This six-foot, six-inch, 250-pound All-American Junior quarterback has been working at his game all summer. I expect big things from him today," said Kirk Herbstreit, the color commentator for the game.[2]

Although this back and forth between the two commentators is typically heard on Saturday afternoons, this exchange could be heard on any given day. This is because this exchange occurred in NCAA Football 2009, an interactive football simulation video game created by Electronic Arts (EA).[3] Furthermore, the announcers referred to a football player bearing the same unique characteristics as former Kansas State University Football quarterback Josh Freeman.[4]

Josh Freeman was not the only re-creation by EA Sports. Lined up on defense against the Josh Freeman re-creation was an Ohio State University linebacker bearing the number 33 on his jersey, and wearing thin armbands on his upper arms, just below his biceps. This six-foot, three-inch, 244-pound linebacker shares the same exact characteristics as All-American James Laurinaitis. With rare exceptions, virtually every Division I football player in the NCAA has a corresponding player in the EA game, with the same jersey number, and virtually identical height, weight, build and home state. In addition, EA matches the player's skin tone, hair color, and, often, a player's hairstyle. However, these player recreations do not bear the name of the player recreated, and are just referred to by jersey number.

Each year, EA spends millions of dollars to ensure the realism of its games and advertises this realism in the promotion of its products. Specifically, EA replicates team logos, uniforms, mascots and stadiums with almost photographic realism.[5] However, EA Sports is not permitted to utilize a collegiate player's name and likeness, as this would violate the individual athlete's right of publicity.[6]

Due to the fact that EA uses, and has used, virtual players with virtually identical characteristics as their real life counterparts, Sam Keller, a former quarterback for Arizona State University and University of Nebraska, filed a lawsuit against EA, the NCAA,[7] and the Collegiate Licensing Company (CLC)—the licensing arm of the NCAA[8]—claiming that the use of his likeness, statistics, jersey number and position within the video game violated his right of publicity.[9] When this suit was filed, critics and analysts commented that it had a chance to change the video game industry forever. Now that the Ninth Circuit has entered a decision, EA and collegiate video games will never be the same.

> *"Keller claimed that because virtually every real life Division I football player in the NCAA had a corresponding player in EA's games with the same jersey number, height, weight, build and home state, as well as skin tone, hair color and hair style, this was a misappropriation of a person's right of publicity, despite the fact that no name was used."*

II. The *Keller* Decision Rocks the Gaming World

The 2009 suit, which was decided this past July, arises out of the use of NCAA student-athlete likenesses in video games. Keller claimed that despite clear prohibitions on the use of student names and likenesses in NCAA by-laws, contracts and licensing agreements, EA utilized the likenesses of individual student-athletes in its games to increase sales and profits.[10] Additionally, he argued that EA intentionally circumvented the prohibitions on utilizing student-athletes' names in commercial ventures by allowing gamers to upload entire rosters that include players' names and other information directly into the game in a matter of seconds.[11] Furthermore, rather than trying to stop this exploitation, Keller argued that the NCAA and the CLC have allowed this to happen because it increased the popularity of their games, and, thus, the royalties from the games received by the NCAA and CLC were higher.

According to NCAA rules, the NCAA does not officially permit licensing NCAA student-athlete likenesses or the use of their names.[12] Additionally, the CLC is contractually obligated to honor NCAA prohibitions, and the licensing agreement between EA and CLC explicitly prohibits the use of NCAA athlete names and/or likenesses in NCAA branded video games.[13] However, Keller claimed that because virtually every real life Division I football player in the NCAA had a corresponding player in EA's games with the same jersey number, height, weight, build and home state, as well as skin tone, hair color and hair style, this was a misappropriation of a person's right of publicity, despite the fact that no name was used. Furthermore, Keller argued that the omission of the players' names is of little consequence, because EA intentionally designed its game so that the names could be uploaded from third party websites. As a result of these actions, Keller claimed that EA violated California's right of publicity[14] because "[EA] has used and continues to use Plaintiff's…name[] and likeness[] for the purposes of advertising, selling and soliciting purchases of [EA]'s videogames."[15]

In its defense, EA claimed that it had a First Amendment right to use the player's likenesses.[16] This is because the work contained "transformative elements" not primarily derived from a "celebrity's" fame.[17] EA argued that the use of the players' likenesses was simply some of the raw materials from which its game was created, but not the sum and substance of the game itself, citing a number of cases in support. EA further argued that the characters in the game should be considered with the transformative elements of unique stadiums, sounds, commentary, and fictional scenarios unlike any real-world experience, and therefore, considering the players with the entire game, it is a transformation from just the players' likenesses.

Meanwhile, while the *Keller* case was pending, in late July 2013, the NCAA decided not to renew its relationship with EA that had started in 1993.[18] In the NCAA's press statement, it cited confidence in its legal position regarding the use of NCAA trademarks in the video games, but given the current "business climate" and "costs of litigation," the NCAA decided to discontinue the relationship with EA.[19] Furthermore, the Big Ten, Pac-12, and Southeastern Conferences decided to pull their trademarks from EA games.[20] Although not an express admission of potential right of publicity violations by the NCAA and EA, this was a strong indicating factor in Keller's case.

In late July 2013, the Ninth Circuit reached a decision regarding EA's appeal. The panel of judges on the Ninth Circuit Court voted 2 to 1 that EA Sports was not protected by free speech and the transformativeness test.[21] Judge Jay S. Bybee, writing in the majority opinion, said that the First Amendment does not apply to EA's use of Sam Keller's image, because "it literally recreates Keller in the very setting in which he has achieved renown."[22] Accordingly, the majority cited the fact that EA sent detailed questionnaires to team equipment managers so they can learn specific equipment details about specific players as support for their decision.[23]

III. How *Keller* Affects *O'Bannon v. NCAA*

In the same year that the *Keller* case was filed, Ed O'Bannon, former University of California Los Angeles basketball player, filed a suit on behalf of current and former Division I men's basketball and football players over the commercial use of their identities. He contended that the NCAA, its colleges and universities, its conferences, CLC and EA joined to prevent student-athletes from getting paid, thus violating the antitrust laws.[24] O'Bannon claimed that the marketplace would be more competitive if student athletes could enter into their own individual license agreements, rather than forfeiting this right under NCAA rules.[25] Second, O'Bannon argued that his right of publicity was violated.[26] These claims stem from the belief that O'Bannon and former players, including fellow plaintiffs Bill Russell and Oscar Robertson, are entitled to a share of the millions of dollars in television, video game and other revenue derived from the use of players' likenesses, names and images.[27]

The *Keller* ruling could have an impact in this similar lawsuit brought by Ed O'Bannon and other college athletes against the NCAA, EA and CLC. Although the *Keller* and *O'Bannon* cases operate separately, a precedent now has been set for the EA portion of the O'Bannon case, as both are in the United States District Court. This could result in the court ruling in favor of O'Bannon for his right of publicity claim.

According to *Sport Illustrated's* legal expert Michael McCann, the *Keller* decision helps *O'Bannon*, because EA cannot successfully argue that players in games reflect the artwork of the video game programmer more than the players themselves.[28] As a result, EA has greater motivation to offer O'Bannon more attractive settlement terms than it did before this decision because *O'Bannon* can use the *Keller* decision as leverage.[29] Thus, the *O'Bannon* case would only leave the NCAA and CLC to deal with the antitrust issues.

IV. The Future of Collegiate Video Games

According to Robert Boland, sports law professor at New York University's Tisch Center, the *Keller* decision: "[S]ays that athletes do have a right of ownership in their images, even after they leave college. While it doesn't change the status of athletes now in college, it begins to shape their financial rights in their images."

In this vein, Michael McCann suggested that it is possible that EA would make video games with former college teams and use actual players who have no eligibility in collegiate athletics because, if EA were to make college games with current players and use their real names, it would require changes to the NCAA rules.[30] Furthermore, if O'Bannon wins his case, EA could make games with real players and real names, but it would have to negotiate with and pay current collegiate student-athletes money for using their names and likenesses.[31]

As for general university participation, according to the NCAA's press release regarding the end of its relationship with EA, member colleges and universities license their own trademarks and other intellectual property for video games, and therefore can independently decide whether to continue a business relationship with EA in the future.[32] Therefore, EA can continue to make a college football video games provided that no NCAA trademarks—as well as the trademarks of athletic conferences that ended their license deals with EA—are used in the games. In fact, early indications suggest that EA will continue to have a college football game, with next year's iteration being called "College Football 15."[33] Accordingly, EA will have to negotiate with individual universities to include them. It remains to be seen, however, how, because of the *Keller* decision, players will be created in the future iterations of EA's college football video game.

"[A]ccording to the NCAA's press release regarding the end of its relationship with EA, member colleges and universities license their own trademarks and other intellectual property for video games, and therefore can independently decide whether to continue a business relationship with EA in the future."

Endnotes

1. NCAA Football 09 (Electronic Arts, PlayStation 3 2008).
2. *Id.*
3. EA describes itself as the "world's leading interactive entertainment software company." Brief of Plaintiff at 1, Keller v. Electronic Arts, Inc. (N.D.Cal. 2009). In 2008, EA posted net revenues of $3.67 billion. *Id.*
4. Josh Freeman was a quarterback for Kansas State who weighed 250 pounds and was six foot, six inches. *Josh Freeman—Kansas State* (2009), *available at* http://www.rotoworld.com/player/cfb/99179/player. He entered the NFL Draft in 2009 after achieving an honorable mention All-American honor in his junior year of college. *Freeman an All-American,* The Topeka Capital-Journal, Dec. 23, 2008, http://cjonline.com/stories/122308/cat_370391344.shtml.
5. Dan Rogers, *Ninth Circuit Rules Against EA in Keller v. Electronic Arts* (2013), *available at* http://dlr-law.com/3/post/2013/08/countdown-the-5-most-influential-video-game-lawsuits-of-2012-4-of-5-keller-v-electronic-arts.html [hereinafter "Rogers"].
6. Brief of Plaintiff, *supra* note 3, at 4.
7. The NCAA is an unincorporated association that is the governing body of college sports. *Id.* Its annual revenues for the 2007 to 2008 fiscal year were $614 million, much of it stemming from marketing and television rights. *Id.*
8. The CLC is the nation's leading collegiate trademark, licensing and marketing company. Brief of Plaintiff, *supra* note 3, at 2. The CLC represents nearly 200 colleges and universities, bowl game and athletic conferences including the NCAA, and its primary service is to market and sell its clients. *Id.*
9. Rogers, *supra* note 5.
10. Brief of Plaintiff, *supra* note 3, at 4.
11. Brief of Plaintiff, *supra* note 3, at 9.
12. *See* NCAA By-Law 12.5.
13. Brief of Plaintiff, *supra* note 3, at 10.
14. It is important to note that Keller also claimed a violation of publicity rights under Indiana law against NCAA; common law right of publicity violation against EA; civil conspiracy against all defendants; violation of Unfair Compensation Act under the California Business and Professions Code against EA; breach of contract against the NCAA; and unjust enrichment against EA and CLC. *See* Brief of Plaintiff, *supra* note 3, at 17-20.
15. *See* CA Civil Code § 3344, which states, "Any person who knowingly uses another's name, voice, signature, photograph, or likeness, in any manner, on or in products, merchandise, or goods, or for the purposes of advertising or selling, or soliciting purchases of, products, merchandise, goods or services, without such person's prior consent, or in the case of a minor, the proper consent of his parent or legal guardian, shall be liable for any damages sustained by the person or persons injured as a result thereof."
16. Dennis Dodd, *Keller lawsuit vs. gamer EA Sports, NCAA clears major hurdle (*2013), *available at* http://www.cbssports.com/collegefootball/writer/dennis-dodd/22954567/keller-lawsuit-vs-gamer-ea-sports-and-ncaa-clears-major-hurdle.
17. Rogers, *supra* note 5. This concept is borrowed from copyright law.
18. *NCAA will not renew EA Sports contract* (2013), *available at* http://www.ncaa.org/wps/wcm/connect/public/ncaa/resources/latest+news/2013/july/ncaa+will+not+renew+ea+sports+contract [hereinafter NCAA Statement].
19. *Id.*
20. Mike Chiari, *NCAA Will Not Renew Licensing Contract with EA Sports* (2013), *available at* http://bleacherreport.com/articles/1707347-ncaa-will-not-renew-licensing-contract-with-ea-sports.
21. *See Comedy III Productions, Inc. v. Gary Saderup, Inc*., 25 Cal. 4th 387, 409 (Cal. App. 4th 2001) ("The central purpose of the inquiry… is to see whether the new work merely supersedes 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."). *See also Kirby v. Sega of America, Inc.*, 144 Cal. App. 4th 47 (Cal. App. 2d 2006); *Winter v. DC Comics,* 30 Cal. 4th 881, 885 (Cal. App. 4th 2003).
22. *Keller v. Electronic Arts, Inc.* (9th Cir. 2013). This is consistent with the recent ruling by the United States Court of Appeals in the case against EA brought by former Rutgers quarterback Ryan Hart. *See Hart v. Electronic Arts, Inc.* (3d Cir. 2012). Both courts agree that players in video games are actual renditions of real-life players who should be compensated.
23. *Keller* at 7. It is important to note that this case is subject to another appeal, but a successful appeal is highly unlikely.
24. Michael McCann, *Ed O'Bannon v. NCAA class certification hearing primer* (2013), *available at* http://sportsillustrated.cnn.com/college-football/news/20130619/ncaa-ed-obannon-hearing-primer/.
25. *Id.*
26. *Id.*
27. Patrick Hruby, *The End of Amateurism?* (2013), *available at* http://www.sportsonearth.com/article/52416070/.
28. Ryan Krasnoo, *Q&A with Michael McCann: Implications of 9th Circuit denying EA Sports' appeal* (2013), *available at* http://college-football.si.com/2013/07/31/ea-sports-sam-keller-ed-obannon/.
29. *Id.*
30. *Id.*
31. *Id.*
32. NCAA Statement.
33. Erik Malinowski, *NCAA Cuts Ties With EA Sports, Leaving College Football Game Franchise In Limbo* (2013), *available at* http://www.buzzfeed.com/erikmalinowski/ncaa-cuts-ties-with-ea-sports-leaving-college-football-game.

Michael Rosen is a staff attorney for the New Jersey Devils, and a graduate of the Benjamin N. Cardozo School of Law.

Courts Sideline Competition in Favor of Transformative Use Test

By Alexandra Goldstein

On the field, there are rules; a football game starts with a coin toss, a touchdown notches six points, and there are four quarters before the final whistle blows. Yet off the field, where scores of current and former student-athlete plaintiffs are fighting for their right of publicity in video games, the rules are still being written.

In ongoing litigation in the Ninth Circuit, as well as in a decision arising out of an identical case in the Third Circuit, student-athletes have brought suit against the National Collegiate Athletic Association (NCAA) and Electronic Arts (EA), a leading creator of interactive games and software; the players allege a violation of their right of publicity based on the similarity of the plaintiffs to avatars in the company's games.[1] In the games at issue, users can manipulate lifelike virtual football players to run different plays and compete against other teams.[2] The games are played on consoles capable of three-dimensional images and photographic realism.[3] While EA and the NCAA have an agreement that allows the former to replicate "team logos, uniforms, mascots, and even member stadiums," EA has taken the liberty of adding the actual jersey number, skin color, hair color, height, weight, build, and home state of each virtual player in NCAA Football.[4] To this end, nearly every Division I football player has an analogous player in EA's game.[5] In response to the plaintiff's right of publicity claims, EA has asserted a First Amendment right of expression defense.[6]

Courts have traditionally resolved the tension between the right of publicity and the First Amendment in expressive works through a balancing test that weighs the relative merits of each right within a specific framework. Until a pair of decisions in the Third and Ninth Circuits, there were two leading tests, as well as a multitude of additional less accepted balancing tests.[7] The two leading tests were the transformative use test and the *Rogers* test; the latter was urged by the defendants and considered by both the *Hart* and *Keller* courts, before ultimately being dismissed in favor of the transformative use test.[8] The courts' selection of the test in both cases signals judicial consensus, but contentions about the broader implications of the cases for the entertainment industry cast doubt on the test's permanency.

I. The Right of Publicity

At the heart of the litigation in both *Hart* in the Third and *Keller* in the Ninth Circuit is the right of publicity. The right was developed out of the right of privacy to provide protection for those with interests in the distribution of their images.[9] The right of publicity transcends the right of privacy's interest in protecting an individual's right to be left alone and creates a legal device for "individuals who have placed themselves in the public eye" and wish "to exploit the commercial value that attaches to their identities by virtue of their celebrity."[10] *Haelan Laboratories v. Topps Chewing Gum* first enunciated the right.[11] In *Haelan* the court looked at whether "a baseball player had 'the right to grant the exclusive privilege of publishing his picture…'" and found that he was entitled to control the commercial distribution of his photo, labeling such a right the "right of publicity."[12] The right of publicity is not codified by federal statute, leaving courts to rely on the specific statutory and common law rights of publicity recognized in a majority of states.[13]

II. The First Amendment

One threat to an individual's right of publicity is the First Amendment, as it carries inherent protection for those who seek to express their views.[14] The Court recognized that the First Amendment guarantees "an undiluted and unequivocal right" to expression that courts cannot limit.[15]

Until 2011, the Supreme Court had struggled to comfortably label video games as expressive works entitled to First Amendment protection.[16] When courts first considered the expressiveness of the games, the rudimentary nature of video games was insufficient for a finding of First Amendment protection; courts reasoned that "in the future video games which contain sufficient communicative and expressive elements may be created," but at that time video games were little more than glorified pinball machines.[17] Since the 1980s, courts have been presented with vivid and detailed video game images that display lifelike realism and capture the fluid nature of human movement and expression. In its 2011 *Brown* decision, the Court first acknowledged that "video games qualify for First Amendment protection."[18]

III. Transformative Use Edges Out Competing Tests

Until this year, courts applied multiple tests to determine whether the right of publicity or the First Amendment takes precedence in an expressive work.[19] A pair of recent Circuit Court opinions, *Hart* and *Keller*, indicates a consensus may be forming around the transformative use test.[20]

The transformative use test balances the First Amendment's right of expression with the state-based right of publicity.[21] It was developed in *Comedy III Productions v. Gary Saderup*, a 2001 California Supreme Court case that confronted the issue as to whether the defendant's drawings of celebrities in charcoal and silkscreened on t-shirts violated the plaintiff's right of publicity.[22] The *Comedy III* court established at least four non-exhaustive factors to consider in determining whether a work is transformative.[23] First, the court evaluated whether the expressive work in question had been endowed with creative elements to render it more of the defendant's own work than a reflection of the plaintiff.[24] In its analysis, *Comedy III* looked at whether the defendant's work was a confluence of "raw materials" or simply mirrored the plaintiff's literal depiction.[25] The second factor recognized the importance of considering the quantitative elements of the work, rather than assessing the quality of the work.[26] To that end, the *Comedy III* court suggested that to qualify for First Amendment protection, a work need not align with a single classification of "art."[27] The third factor considered whether the market value of the defendant's work was rooted in the celebrity of the plaintiff.[28] This factor reflected the court's interest in the work deriving its value from some source other than the plaintiff, as permitting the alternative could supplant the market for works derived from the plaintiff's right of publicity.[29] The fourth *Comedy III* factor is similar to the first and asks whether the defendant's depiction of the plaintiff is so literal that the work in question is devoid of the defendant's own artistic talent.[30] A 2011 California Court of Appeals case expounded on the fourth factor to account for the setting in which the plaintiff's image appears.[31] It recognized that adding unique context to an otherwise literal depiction of the plaintiff could be sufficient for finding that the work amounted to the defendant's own artistic talent.[32]

Both the Third Circuit in *Hart* and Ninth Circuit in *Keller* applied the transformative use test to find that the defendants' First Amendment defenses failed as a matter of law.[33]

Ryan Hart was an NCAA student-athlete who played quarterback for Rutgers.[34] In 2009 he filed a claim against EA in the United States District Court in New Jersey, alleging a violation of his right of publicity based on the resemblance of his physical attributes to those of virtual players in EA's 2004, 2005, 2006, and 2009 video games.[35] The court analyzed the facts of *Hart* using both the transformative use test and the *Rogers* test, also favored at the time, and found that EA's First Amendment defense would succeed under either test.[36] Hart appealed the District Court's ruling to the Third Circuit Court of Appeals, which selected the transformative use test to guide its analysis.[37] In its decision earlier this year, the court weighed the merits of the transformative use and *Rogers* tests.[38] They declined to extend *Rogers*, expressing doubt that the test could even be applied to the underlying dispute; conversely, they found that the transformative use test not only provided a strong framework for courts, but also provided uniformity absent from *Rogers*.[39]

The court used factors from *Comedy III* to evaluate the transformative nature of the plaintiff's digital image, as well as the context in which the plaintiff's digital image appears.[40] The court easily disposed of the transformative nature of Hart's digital avatar, finding that it had the same hair color, hair style, skin color, accessories, vitals and biographical details as the plaintiff.[41] It expanded its analysis of Hart's image to include a user's ability to alter certain characteristics of the digital avatars.[42] The court reasoned that merely having the feature failed to impute a transformation of the plaintiff's image; moreover, the default position of the digital avatars in the defendant's game was the plaintiff's likeness.[43] The court expanded its analysis to look at the setting in which the avatar appeared.[44] It found that EA failed to transform the setting, acknowledging that the avatar exists within digital recreations and replicas of football fields that attempt to literally mirror real-life stadiums, crowds, and sounds.[45] On the basis of its analysis of Hart's digital avatar and the context in which it appeared, the court found that the defendant's First Amendment defense failed.[46]

Samuel Keller, also an NCAA student-athlete, played quarterback for Arizona State University in 2005, before transferring to the University of Nebraska, where he played in 2007.[47] He filed suit against EA, the NCAA, and the Collegiate Licensing Company (CLC) in the United States District Court sitting in the Northern District of California in May 2009.[48] Keller's suit alleged that EA incorporated the likeness of student-athletes in its video games, and he accused the NCAA and the NCAA's licensing arm, CLC, of enabling EA's actions in order to increase their own revenues.[49] Keller's suit included seven causes of action,[50] including claims for deprivation of his right of publicity against the NCAA under Indiana's right of publicity statute and against EA under California's right of publicity statute.[51]

At the same time when Keller's case was pending in the Northern District of California, there were eight additional pending cases that arose from similar facts and a common question of law.[52] The court granted Keller's motion to consolidate the majority of the cases and renamed the single case *In re NCAA Student-Athlete Name & Likeness Licensing Litigation*.[53] The District Court found for Keller,[54] and EA subsequently appealed.[55] The Ninth Circuit affirmed for Keller on July 31, 2013.[56]

The Ninth Circuit Court of Appeals acknowledged that the factors in *Comedy III* guided its application of the transformative use test to the facts of *Keller*.[57] Since EA appealed on the ground that the lower court's analysis focused too narrowly on Keller's image at the expense of the setting and transformative elements of the game, the Ninth Circuit focused on the first and fourth elements of *Comedy III*.[58] First, the court looked at whether the plaintiff's image in EA's game was made up of the defendant's own raw materials.[59] Like the *Hart* court, *Keller* looked at the mutability of the avatars.[60] The court agreed with the Third Circuit's finding that the mere presence of the feature does not transform the image from being a literal reflection of the plaintiff to the defendant's own work.[61] The *Keller* court also evaluated the setting within which the avatar exists but found that by playing football, the plaintiff's image in the defendant's video games does the exact same thing that he does in real life.[62] The court concluded that EA's use of Keller's image, and therefore the images of all of the consolidated plaintiffs, was not transformative, and EA was not entitled to a First Amendment defense.[63]

Until the Third and Ninth Circuits respective decisions in *Hart* and *Keller*, courts had actively considered the *Rogers* test.[64] *Rogers* is rooted in trademark law and used to determine whether the celebrity's association with the underlying product connotes an endorsement.[65] Courts apply *Rogers* when they are faced with the use of a celebrity's name on the packaging, labeling, or title of a work. The test is derived from *Rogers v. Grimaldi*, which pitted Ginger Rogers against producers of a film bearing the title *Ginger and Fred*.[66] Rogers brought suit alleging that the title created the impression that "she sponsored, endorsed, or was otherwise involved in the film" and therefore the defendant's "violated her common law right of publicity."[67] The Third Circuit in *Hart* considered applying *Rogers*, but ultimately found that it was more aptly confined to cases that dealt in trademark, having previously "expressed doubt…over whether [*Rogers*] could apply beyond the title of a work."[68]

The *Hart* and *Keller* decisions send a message about the emerging role of the transformative use test. In the wake of both decisions, tests that had previously been applied to balance the right of publicity and First Amendment in expressive works, such as the *Rogers* test, fall out of favor.

IV. Impact of *Hart* and *Keller* off the Field and on the Screen

In both *Hart* and *Keller*, *amici* submitted briefs to warn the Third and Ninth Circuits about the broader implications of the cases.[69] In their briefs, *amici* focused on the similarity between video games and other creative outlets, such as film and television. They cautioned that if EA's First Amendment defense failed under the transformative use test, right of publicity claims in other industries would similarly defeat the First Amendment.

Under the *amici* line of reasoning, a ruling for the plaintiffs would not only restrict the use of unauthorized depictions in video games, it would also curtail unauthorized likenesses in films and television.[70] Biopics and documentaries frequently use realistic likenesses of historical individuals or celebrities, [71] making them particularly vulnerable to right of publicity litigation.[72] Should the right of publicity be elevated over the First Amendment in creative works, realistic unauthorized depictions of individuals would require permission or altogether cease due to the financial burdens of obtaining permission.[73] For example, the recent Woody Allen film, *Midnight in Paris*, prominently featured realistic depictions of early twentieth century art and literary figures within a larger story about a modern-day couple's romantic decline.[74] The dissent in *Keller* agreed with *amici*, stating that ruling for the plaintiffs jeopardized the use of historical figures in motion pictures like *Midnight in Paris*, which would reduce the film to nothing more than "a pedestrian domestic squabble."[75]

Amici's warnings ultimately failed to sway the majority, and EA has announced that it intends to appeal the cases to the Supreme Court.[76] The appeals give the Court an opportunity to consider the broader implications of the cases.

V. Conclusion

The Third and Ninth Circuits' decisions signal uniformity in what has been a "disordered and incoherent" body of law stemming from a prior lack of "judicial consensus."[77] However, the law is far from settled. The Ninth Circuit will continue without EA and CLC, as the defendants recently announced their intent to settle with the plaintiffs in both cases and stop producing the controversial NCAA video game series at issue.[78] Their decision to settle curtails any appeals that may have arisen from the Third Circuit's decision and leaves the NCAA as the sole defendant in the Ninth Circuit. The NCAA has vowed to continue defending the case and it has petitioned the Supreme Court for a writ of certiorari. The Petition, coupled with the potentially broader implications of the decisions in the Third and Ninth Circuits, cast doubt on whether this will be the final ruling on the application of the transformative use test in expressive works.

Endnotes

1. *In re NCAA Student-Athlete Name & Likeness Licensing Litig.*, 724 F.3d 1268, 1272 (9th Cir. 2013), *aff'g sub nom* Keller v. Elec. Arts, Inc., 2010 WL 530108, 1 (N.D. Cal. 2010); Hart v. Elec. Arts, Inc., 717 F.3d 141,146-47 (3d Cir. 2013), *rev'g* Hart v. Elec. Arts, Inc., 808 F. Supp. 2d 757 (D.N.J. 2011).
2. *See NCAA Football*, EA Sports, http://www.easports.com/ncaa-football.
3. Class Action Complaint and Demand for Jury Trial at 3, Keller v. Elec. Arts, Inc., 2010 WL 530108 (N.D. Cal. 2010).
4. *Id.* at 4.
5. *Id.* at 3.
6. *In re NCAA Student-Athlete Name & Likeness Licensing Litig.*, 724 F.3d at 1271; *Hart II*, 717 F.3d at 147.
7. *Hart II*, 717 F.3d at 153 (stating "*Rogers* and Transformative Use tests are the most well-established….").
8. *In re NCAA Student-Athlete Name & Likeness Licensing Litig.*, 724 F.3d at 1279-82; *Hart II*, 717 F.3d at 153-58.
9. *Hart II*, 717 F.3d at 150.
10. Jim Henson Prods. Inc. v. John T. Brady & Assocs. Inc., 867 F. Supp. 175, 188 (S.D.N.Y. 1994).
11. Haelan Labs., Inc. v. Topps Chewing Gum, Inc., 202 F.2d 866, 868 (2d Cir. 1953).
12. *Id.* at 868.
13. Hart v. Elec. Arts, Inc., 808 F. Supp. 2d 757, 773 (D.N.J. 2011), *rev'd*, Hart v. Elec. Arts, Inc., 717 F.3d 141 (3d Cir. 2013).
14. *See* U.S. Const. amend. I.
15. Wieman v. Updegraff, 344 U.S. 183, 194 (1952).
16. Brown v. Entm't Merchs. Ass'n, 131 S.Ct. 2729 (2011).
17. Marshfield Family Skateland, Inc. v. Town of Marshfield, 450 N.E.2d 605, 609-10 (Mass. 1983).
18. *Brown*, 131 S.Ct. at 2733.
19. *See, e.g., In re NCAA Student-Athlete Name & Likeness Licensing Litig.*, 724 F.3d 1268, 1273 (9th Cir. 2013); Parks v. LaFace Records, 329 F.3d 437, 461 (6th Cir. 2003); Hart v. Elec. Arts, Inc., 808 F. Supp. 2d 757, 771, 775 (D.N.J. 2011) (noting courts "have utilized up to eight 'balancing' tests" to evaluate right of publicity and First Amendment claims), *rev'd*, Hart v. Elec. Arts, Inc., 717 F.3d 141 (3d Cir. 2013).
20. *In re NCAA Student-Athlete Name & Likeness Licensing Litig.*, 724 F.3d at 1273; *Hart II*, 717 F.3d 141 at 163-65.
21. Comedy III Prods., Inc. v. Gary Saderup, Inc., 25 Cal. 4th 387, 404 (Cal. 2001).
22. *Id.* at 391, 393-94.
23. *Id.* at 406-07; *see also, In re NCAA Student-Athlete Name & Likeness Litig.*, 724 F.3d at 1274 (stating that "*Comedy III* gives us at least five

factors to consider….” Notably *In re NCAA Student-Athlete Name and Likeness Licensing Litig.* divides a single *Comedy III* factor into two separate factors to generate five factors).

24. *See Comedy III Prods.*, 25 Cal. 4th at 406 (noting core of test is "whether a product containing a celebrity's likeness is so transformed that it has become primarily the defendant's own expression….").
25. *Id.*
26. *Id.* at 407.
27. *Id.*
28. *Id.*
29. *Id.* at 405.
30. *Id.* at 408.
31. No Doubt v. Activision Publ'g, Inc., 122 Cal. Rptr. 3d 397, 410-11 (Cal. Ct. App. 2011).
32. *Id.*
33. *In re NCAA Student-Athlete Name & Likeness Licensing Litig.*, 724 F.3d 1268, 1276 (9th Cir. 2013); Hart v. Elec. Arts, Inc., 717 F.3d 141, 170 (3d Cir. 2013).
34. Hart v. Elec. Arts, Inc., 808 F. Supp. 2d 757, 762 (D.N.J. 2011), *rev'd*, Hart v. Elec. Arts, Inc., 717 F.3d 141 (3d Cir. 2013).
35. *Id.* at 761.
36. *Id.* at 787, 793-94.
37. *Hart II*, 717 F.3d at 150-51, 158 (noting that while the transformative use test was developed in California state courts, right of publicity law in California and New Jersey is substantially similar in substance and objective).
38. *Id.* at 153-70.
39. *Id.* at 153, 157, 163.
40. *Id.* at 165-69.
41. *Id.* at 166.
42. *Id.* at 166-67.
43. *Id.* at 166-68.
44. *Id.* at 166-688.
45. *Id.* at 166 ("[D]igital Ryan Hart does what the actual Ryan Hart did while at Rutgers: he plays college football, in digital recreations of college football stadiums, filled with all the trappings of college football game.").
46. *Id.* at 167-69.
47. *In re NCAA Student-Athlete Name & Likeness Licensing Litig.*, 724 F.3d 1268, 1271 (9th Cir. 2013).
48. Class Action Complaint and Demand for Jury Trial at 1, Keller v. Elec. Arts, Inc., 2010 WL 530108 (N.D. Cal. 2010).
49. *Id.*
50. *Id.* at 17-21.
51. *Id.* at 17-18.
52. *In re NCAA Student-Athlete Name & Likeness Licensing Litig.*, 724 F.3d at 1272 (noting the case includes "nine named plaintiffs" who are all former NCAA student-athletes).
53. Order Granting Plaintiffs Samuel Michael Keller's and Edward C. O'Bannon Jr.'s Joint Motion to Consolidate Actions, Keller v. Elec. Arts, Inc., 2010 WL 530108 (N.D. Cal 2010) (No. 145) (eight of the nine plaintiffs consolidated under motion; one additional plaintiff added to action thereafter).
54. *Keller*, 2010 WL 530108 at 3, 11 (finding EA's depiction of student-athletes was not sufficiently transformative to bar plaintiff's right of publicity claim).
55. *In re NCAA Student-Athlete Name & Likeness Licensing Litig.*, 724 F.3d at 1276 (noting that EA argues that lower court erred in "focusing primarily on Keller's likeness and ignoring the transformative elements of the game as a whole.").
56. *Id.* at 1272 (noting that since consolidated cases all arise from similar suits, the court would address all claims through single analysis and discussion of Keller).
57. *Id.* at 1273-75.
58. *Id.* at 1274 (first and fourth elements of *Comedy III* evaluate impact of defendant's creative contributions to plaintiff's image and context in which it appears).
59. *Id.* at 1276-77.
60. *Id.*
61. *Id.*.
62. *Id.*.
63. *Id.* at 1284.
64. *See, e.g.*, *In re NCAA Student-Athlete Name & Likeness Licensing Litig.*, 724 F.3d at 1279-82; Parks v. LaFace, 329 F.3d 437, 461(6th Cir. 2003); Hart v. Elec. Arts, Inc., 808 F. Supp. 2d 757, 771 (D.N.J. 2011), *rev'd*, Hart v. Elec. Arts, Inc., 717 F.3d (3d Cir. 2013).
65. *In re NCAA Student-Athlete Name & Likeness Licensing Litig.*, 724 F.3d at 1279-82.
66. Rogers v. Grimaldi, 875 F.2d 994 (2d Cir. 1989) (Rogers was not affiliated with the film).
67. *Rogers*, 875 F.2d at 997.
68. *Hart II*, 717 F.3d 141 at 157.
69. *See, e.g.*, Brief for Motion Picture Association of America, Inc., as Amici Curiae Supporting Appellant, *In re NCAA Student-Athlete Name & Likeness Licensing Litig.*, 724 F.3d 1268 ; Brief for Org. for Transformative Works et al. as Amici Curiae Supporting Appellee, *Hart II*, 717 F.3d 141.
70. Brief for Advance Publ'ns et al. as Amici Curiae Supporting Appellant, at 1, *In re NCAA Student-Athlete Name & Likeness Licensing Litig.*, 724 F.3d 1268 (9th Cir. 2013); *see also In re NCAA Student-Athlete Name & Likeness Licensing Litig.*, 724 F.3d at 1290 (Thomas, S., dissenting) (arguing that consequence of majority's ruling is that "all realistic depictions of actual persons…are protected by…right of publicity….").
71. Brief for Org. for Transformative Works et al. as Amici Curiae Supporting Appellee, at 29, *Hart II*, 717 F.3d 141.
72. Motion for Leave to File for Motion Picture Association of America, Inc., as Amici Curiae Supporting Appellant, at 4, *In re NCAA Student-Athlete Name & Likeness Licensing Litig.*, 724 F.3d 1268.
73. Brief for Org. for Transformative Works et al. as Amici Curiae Supporting Appellee, at 28-31, *Hart II*, 717 F.3d 141.
74. *In re NCAA Student-Athlete Name & Likeness Licensing Litig.*, 724 F.3d at *1290 (Thomas, S., dissenting).
75. *Id.*
76. *In re NCAA Student-Athlete Name & Likeness Licensing Litig.*, 724 F.3d 1268 (9th Cir. 2013) (order granting Appellant's motion to stay until final disposition by Supreme Court).
77. Hart v. Elec. Arts, Inc., 808 F. Supp. 2d 757, 774 (D.N.J. 2011).
78. Cam Weber, *Update on College Football*, EA Sports (Sept. 26, 2013), http://www.ea.com/news/update-on-college-football.

Alexandra Goldstein is a Legal Fellow with the education and advocacy organization, the Copyright Alliance. Prior to joining the Alliance, Alexandra worked on a variety of copyright, trademark, and licensing issues in collegiate and professional sports. She received her J.D. from American University, Washington College of Law and holds a BA in Mass Communications from the University of California, Berkeley. She can be reached at alex@alexandragoldstein.com.

The views presented in this article are solely those of the author and do not reflect the views or opinions of any other entity.

Proving Secondary Liability Against a Brokerage and Its Broker

By Ashli Weiss

Introduction

In April, Coach, Inc. and Coach Services, Inc. (Coach) won an $8 million award against a brokerage and its broker in an unprecedented case finding secondary liability of counterfeit goods. Without an opinion yet published, this article relies on the case's Docket Report to analyze how Coach became successful in proving secondary liability claims of contributory trademark infringement and false designation of origin.

The Docket Report shows that knowledge is the most difficult element to prove in contributory trademark infringement and false designation of origin claims. To prove these claims against a brokerage and its broker, it must be shown (1) the defendants supplied Customs brokerage services to the direct infringer that imported the counterfeit goods; (2) the direct infringer that imported the counterfeit goods used the services provided by the brokerage and its broker to infringe another's trademarks; (3) the defendants knew, or should have known, that the direct infringer that imported the counterfeit goods would use their Customs brokerage services to infringe another's trademarks; and (4) the trademark owner was damaged by the infringement. This article answers the question of how to prove knowledge against a brokerage and its broker.

> *"…Coach became successful in proving secondary liability claims of contributory trademark infringement and false designation of origin."*

Facts of *Coach v. Celco*

The U.S. Bureau of Customs and Boarder Protection (CBP) inspects some of the merchandise imported into the United States. As a result of one such inspection on August 10, 2009, CBP discovered and seized a shipment imported into the Port of Los Angeles containing 22,040 handbags and 10,300 wallets that infringed Coach's marks.[1] Celco Customs Service Co. (Celco) is the Customs brokerage that formally entered the infringing counterfeit goods (hereinafter Celco refers to the brokerage and its broker).[2] The goods were imported in the name of "Pierce Biotechnologies, Inc." (PBI).[3] PBI was a victim of identity theft perpetrated by the importers of the counterfeit Coach goods who used the former's name, address, and Taxpayer Identification Number (TIN) in an attempt to conceal their identities.[4]

Before a Customs broker may formally enter goods on behalf of an importer, it must first obtain a Customs Broker Power of Attorney (POA) from the importer. Federal law and regulations require that Customs brokers accept only valid POAs from their importing clients.[5] Ceclo accepted a POA that was executed by Robert Laurance, Vice President of Pierce Chemical Company.[6]

There was no Pierce Chemical Company located at its listed address on the POA.[7] That address belonged to PBI.[8] The TIN also did not belong to Pierce Chemical Company, but instead belonged to PBI.[9] There is no such person as Robert Laurance working at either Pierce Chemical Company or PBI.[10]

The POA listing Robert Laurance from Pierce Chemical Company was not obtained directly from Robert Laurance.[11] Instead, it was obtained by a freight forwarder, which faxed the POA to Celco.[12] Celco did not require Robert Laurance to (a) provide proof of identity, (b) proof that Pierce Chemical Company actually existed, (c) proof that Laurance was the Vice President, or (d) proof that he had authority to import goods on behalf of the company, all of which violated one of the four methods for validating POAs set forth by the CBP.[13] Celco was aware of the methods to validate a POA.[14]

All entries of goods into the United States are made subject to bonding requirements.[15] Customs brokers are responsible for ensuring that this bonding requirement is met before filing entry papers.[16] Celco queried the Automated Commercial System / Automated Broker Interface (ACS / ABI) using Pierce Chemical Company's purported TIN to determine if a bond was already in place.[17] The ACS / ABI system reported there was a bond in place, and also that the TIN belonged to PBI, and not Pierce Chemical Company.[18] In other words, the importer's name on the POA did not match the importer's name in the ACS / ABI system.[19] Despite this discrepancy, Celco filed the customs forms with CBP, listing "Pierce Biotechnologies, Inc." as the importer of record on the Customs form because that name must match the TIN of that same form. Celco thus ignored the fact that the POA listed another company and intentionally listed the name associated with the ACS / ABI system.[20]

Based on the bond information obtained from the ACS / ABI system, Celco also knew that PBI had been importing goods into the United States for several years using the services of another Customs broker.[21] Celco was undeterred by this information, even though it might have raised a red flag with Customs as to why PBI would have switched from its previous broker.[22]

Pierce Chemical Company's documents listed its telephone number, fax number and e-mail.[23] A visit to PBI's website would have confirmed that none of this information belonged to Pierce Chemical Company.[24]

Analysis of Proving Knowledge

A brokerage and its broker that are negligent in validating a POA will be held to have knowledge, because they should have known that the importer was using its services to import counterfeit goods. In proving negligence, it is first necessary to establish that the brokerage and its broker had knowledge of how to properly validate a POA.

A brokerage and its broker know, or should know, the guidelines in validating a POA. Federal and common law provide measures to validate a POA. A brokerage and its broker can become aware of these measures through the regular course of doing business, the CBP website, and emails received by ABI filers.[25] Once it can be shown the brokerage and its broker knew, or should have known, the proper methods of validating a POA, the facts must be analyzed in proving negligence.

A brokerage and its broker are negligent in validating a POA when a broker ignores the fact that the POA's listed company and its respective TIN do not match up to what is listed in the ACS / ABI system. Every importer must meet certain bond requirements.[26] A brokerage and its broker are able to determine if these requirements are met by pulling up the information, on the ACS / ABI system. To pull up the information the broker uses the TIN listed on the POA. If the ACS / ABI system lists a different company name than what is provided on the POA then there is a red flag that the POA is invalid.

Where the TIN does not match up to what is listed in the ACS / ABI system, and the broker lists the name on the ACS / ABI system and not the POA, negligence becomes an even stronger argument. The probable reason as to why a broker would do this is to not indicate that something is amiss to the CBP. For shipments imported, the CBP ensures that the TIN matches what is listed in the ACS / ABI system.[27]

Negligence can also be shown where the broker ignores the fact that the importer requesting services already has an established relationship with another brokerage. Typically, a company will only use one brokerage through the duration of its being. With a search on the ACS / ABI, it can be found whether the importer has a previous relationship with a brokerage. Further proof of negligence is that this information is shown when the brokerage runs a mandatory search for the bond requirement.

There is a stronger argument for negligence, as it would have required minimal effort to inquire further once presented with the above listed red flags as to whether a POA was invalid.[28] For example, it would likely be negligent if, by visiting the POA-listed company's website, the broker could see that the POA-listed telephone number, fax number and email did not correspond to the claimed website.

> *"A company that can prove that the brokerage and its broker have knowledge that the direct infringers used its services to import counterfeit goods is likely to be successful in its secondary liability claims of contributory trademark infringement and false designation of origin."*

Conclusion

A company that can prove that the brokerage and its broker have knowledge that the direct infringers used its services to import counterfeit goods is likely to be successful in its secondary liability claims of contributory trademark infringement and false designation of origin. To show that a brokerage and its broker have knowledge, one must show that they knew or should have known that the importer was using its services to import counterfeit goods. It can be shown here that the brokerage and its broker should have known that their conduct was negligent in validating a POA, as (1) the broker ignored the fact that the Customs Broker Power of Attorney listed a different company than what was shown on the ACS / ABI system; (2) the broker filed entry papers with the name provided on the ACS / ABI system rather than that name provided on the POA; (3) the company associated with the TIN on the ACS / ABI system already had an established relationship with a Customs brokerage; and (4) a visit to the company's website listed on the ACS / ABI system would have confirmed that none of the information provided on the POA belonged to the listed POA company. As these facts were present and showed negligence, it is likely the brokerage and its broker should have known that their services were being used to import counterfeit goods.

Endnotes

1. Plaintiff's Memorandum of Contentions of Law and Fact at 1, United States District Court for the Central District of California (Western Division—Los Angeles) 02 / 04 / 2013, Civil Docket for Case #: 2:11-cv-10787-MMM-PJW.
2. *Id.*
3. Plaintiff's First Amended Complaint at 10.
4. *Id.* at 11.
5. Letter from Loretta E. Lynch, United States Attorney, Eastern District of New York, to the Honorable Jack B. Weinstein a United State District Judge, in RE: Nike Inc. v. Cathy Chiu Lam CHB et al. CV-10-1163 (Weinstein J.) (Levy, M.J) (August 18, 2011) [hereinafter Letter].
6. Plaintiff's First Amended Complaintat 14.

7. *Id.*
8. *Id.*
9. *Id.* at 15.
10. *Id.*
11. *Id.*
12. *Id.*
13. Validating the Power of Attorney (2009), http://www.cbp.gov/xp/cgov/trade/trade_programs/broker/validating_poa.xml) [hereinafter Validating the POA]; Office of Field Operations, Broker Compliance, Bro-Validating the Power of Attorney, Administrative Message 05-0441 (April 4, 2005) (Sent to all ABI filers) [hereinafter Admin. Message].
14. Celco is an ABI filer that received the Administrative Message 05-0441; *see* Admin. Message, *supra* note 13.
15. United States Import Registration Requirements, http://www.importexportcustoms.com/Import_Requirements.html [hereinafter U.S. Import Reg. Reqs.].
16. *Id.*
17. Plaintiff's First Amended Complaint at 15-16. The ABI is the system used by the U.S. Customs Service to track, control, and process all commercial goods imported into the United States. ACS facilitates merchandise processing, significantly cuts costs, and reduces paperwork requirements for both Customs and the trade community, http://www.cbp.gov/xp/cgov/trade/automated/automated_systems/acs/acs_abi_contact_info.xml.
18. *Id.*
19. *Id.*
20. *Id.* at 16.
21. *Id.*
22. *Id.*
23. *Id.*
24. *Id.*
25. Validating the POA, *supra* note 13; Admin. Message, *supra* note 13; Letter *supra* note 5.
26. U.S. Import Reg. Reqs, *supra* note 15.
27. *Id.*
28. Plaintiff's First Amended Complaint at 16.

Ashli Weiss always planned on working within the fashion/retail industry. As an undergraduate, she pursued a business education while working at luxury retail to better understand the industry. Now as a 3L law student at the University of California, Hastings College of the Law, she is a member of Law Review, President and Founder of a student organization dedicated to Fashion, Art & Design Law, receiving a concentration in Intellectual Property and spent her 2L summer working for Louis Vuitton North America's Civil Enforcement Division. Ashli chose to focus on the legal rights of the fashion/retail industry because she enjoys working with people and companies she admires, and on issues about which she is most passionate.

Emerging Issues in New York County Intellectual Property Rights Enforcement

By David M. Szuchman and Jeremy Apple

Introduction to DANY IP Rights Enforcement

The rapid growth of technology in the last decade has dramatically altered the way individuals communicate, transact, interact and relate to one another. By 2015, experts predict that over 15 billion devices will be connected to the Internet in some form.[1] Furthermore, increased Internet connectivity worldwide is supported by a rapidly expanding mobile-technology industry, with users spending an average of 39 minutes on mobile applications daily. Smartphones are now the most dominant electronic devices in the marketplace, with an estimated 1.4 billion to be in operation by the end of 2013.[2]

As new technologies, social media and digital commerce become commonplace, these innovations transform standards for conducting business around the world. Just as smartphones, tablets, and netbooks are used to run the global economy, criminals also utilize these modes of technology to commit illegal activities. The merger of criminal actions and technology is particularly noticeable in intellectual property rights violations.

The New York County District Attorney's Office (DANY) has vigorously enforced the Intellectual Property Rights (IPR) of United States stakeholders for years. Today, DANY investigators and prosecutors utilize a variety of coordinated partnerships, technological tools, and New York State Penal Law statutes to protect hard-earned intellectual property rights. Working closely with United States Homeland Security and Customs and Border Patrol, as well as other state and federal government agencies, DANY brings IPR violators to justice using traditional street-level enforcement methods as well as cybercrime and digital investigative techniques.

Emerging Trends

Generally, DANY has identified and classified three emerging issues in criminal IPR enforcement targeted in New York County as (1) the criminal use of technology to facilitate traditional IPR infringement and additional fraud, (2) technology and employee theft generally, and (3) ongoing digital piracy.

To begin with, DANY maintains a steady stream of cases against traditional street-level IPR offenders, such as street-peddlers and small storefronts selling trademark counterfeit items and pirated media. As the traditional "Canal Street" infringement problem persists throughout New York, the Bronx, and Kings Counties,[3] DANY continuously prosecutes street-level arrests of IPR violators in Manhattan, and utilizes case information to develop larger-scale investigations into the domestic and international distribution of infringing and pirated goods. Even further, street-peddlers and storefront operators today may instead conduct an entire illegal transaction without so much as touching a counterfeit item. Keeping counterfeit products hidden from display, a vendor may instead show his customer his smart phone with pictures of various counterfeit offerings. With a simple text message, the desired contraband is delivered shortly thereafter by a colleague waiting a few blocks away—a methodology frequently used by dealers of narcotics.

"Working closely with United States Homeland Security and Customs and Border Patrol, as well as other state and federal government agencies, DANY brings IPR violators to justice using traditional street-level enforcement methods as well as cybercrime and digital investigative techniques."

Today, the NYC street-seller of trademark counterfeit items can instead negotiate an entire transaction via a mobile messages or the Internet, using a confidential email address or even a members-only website to display products, place orders and arrange payments, and arrange the pick-up or shipment of products to any desired location. In addition to traditional anti-counterfeiting, anti-piracy and unlicensed vending Penal Law sections, DANY implements criminal seizure and forfeiture proceedings on related Internet domains and other proceeds of intellectual property crime to seize and ultimately terminate the digital counterparts of any such counterfeit sellers. In this regard, DANY prosecutes street-level IPR violations utilizing a combination of traditional enforcement methods and technological capabilities.

Secondly, in light of the increased national attention to both digital piracy and theft of digital intellectual property, DANY seeks to address new trends and issues in intellectual property crimes. The potential for employee theft of business data, content, and information is a persistent concern for organizations of all types. Here, we see the opportunity for theft amplified by the pervasiveness of technology today. In response, DANY utilizes existing grand larceny statutes to protect business owners from the theft of sensitive or proprietary business information by past or current employees.[4] In addition, DANY utilizes certain Identity Theft and Computer Tampering Penal Law charges to combat the unauthorized distribution of confidential client information and customer transactional data.[5] DANY's criminal IPR enforcement is largely linked to incidents most similar to trade secret misappropriation, where current or former employees seek to obtain business information that will provide the perpetrator with some economic benefit, as this information is most readily obtained by a current or former employee. While incentives for employees to steal from their employers are no greater than before, today's technological advances have led to an uptick in criminal matters involving employee theft of company information. In addition, with increased access to more digital information, current and former employees are more readily able to access an ever-expanding amount of oft-sensitive and proprietary information.

To best address employee theft of digital intellectual property, DANY seeks to protect the rights of businesses and deter employees from committing such acts. Legally, prosecutors in New York County bring criminal charges against perpetrators for the unlawful duplication and criminal possession of computer-related material.[6] Such cases include instances where individuals copy, reproduce, duplicate, or possess computer data or a computer program without the right to do so. Furthermore, the legislative history of these statutes further suggests that these penal law sections were designed to address scenarios, including those in which a current employee has permission to access or duplicate certain computer data or software within the scope of his or her employment but instead copies or duplicates that data for a purpose outside of the authorized limits.[7] The digitization of business records across many industries has expanded the potential for present and former employees to access, copy, and/or steal a business' intellectual property or proprietary information.[8] While the New York Penal Law does not specifically address theft of trade secrets, computer-related statutes have been increasingly applied against individuals who access computer data to duplicate or remove protectable digital materials without the right-holder's consent. New York prosecutors now have at their disposal the felony charge for Unlawful Use of Secret Scientific Material in circumstances when proprietary computer code or software programs are misappropriated by past and present employees or third parties.[9] While Penal Law §§ 156.00 *et seq.* are often considered New York's "anti-hacking statutes," DANY presently utilizes many of these criminal charges against those who misappropriate digital intellectual property, such as software code and other computer data.

In addition, DANY utilizes cybercrime and computer forensics investigative methods to enhance and bolster the digital evidence necessary to enforce IPR. As with any matter involving digital evidence, DANY works to ensure the proper preservation and analysis of evidentiary data imperative to conduct a proper criminal investigation. Practically, street sellers of counterfeit items typically carry cell phones or other portable electronic items when arrested, which often offer a trove of case evidence and investigatory leads for law enforcement. Large-scale distributors often conduct business using computers that are eventually seized by law enforcement upon the execution of search warrants. DANY obtains evidence from these devices by extracting their data in DANY's computer forensics lab, using tools to maintain the integrity of the digital evidence. Further, as in street-level IP violations, computer forensics analysis plays an ever-increasing role for DANY's digital intellectual property enforcement. Where the grounds for criminal action involve the theft of intangible data, fundamental knowledge and proper implementation of computer forensics are imperative to effective enforcement against intellectual property theft or misuse.

Lastly, DANY also utilizes criminal enforcement methods to combat digital piracy and websites distributing infringing content. While digital piracy is nothing new in the world of intellectual property protection, criminals continue to invent creative ways to facilitate the illegal distribution of pirated materials and infringing content. Over the past few years, the Department of Justice briefly focused on websites that provide avenues for Internet users to locate and download infringing and pirated materials. Though DANY explores this avenue as well, it primarily directs its efforts on U.S.-based websites hosting infringing content or distributing pirated materials. We see that today's cyber-infringer creates his or her own mechanism for conducting business online. Instead of earlier peer-to-peer software programs, such as Napster or Kazaa, pirated materials are now distributed on independently operated websites that facilitate the same peer-to-peer connections utilizing a third party "torrent" software to illegally trade in the others' intellectual property. In an effort to quell this type of digital infringement, DANY applies existing Penal Law statutes to the owners and operators of digital spaces that store and distribute pirated materials wherever possible.

DANY utilizes traditional investigatory methods and advanced Internet recognizance techniques to connect individuals and corporate entities to their websites that trade in counterfeit goods or distribute pirated materials. While continuously prosecuting street-level violators, storefront locations sometimes also maintain websites for marketing and sales of counterfeit or pirated items. Further, accessibility to website design and development now make it possible for counterfeit sellers to operate *solely* as digital storefronts, thus eliminating some of the risks for criminals associated with traditional trademark counterfeit sales. To this end, DANY takes both reactive and proactive measures in working with Internet hosting companies and digital payment processors to terminate the means for such websites to operate. Given this growing trend, DANY continues to utilize the resources of its Cybercrime Bureau to target online IPR violators, working closely with stakeholders and industry organizations in order to achieve swift and effective enforcement methods.

Conclusion

While technological advances have undoubtedly changed the way criminals and law enforcement operate, DANY has taken significant strides to utilize both traditional enforcement strategies and new technology to protect intellectual property owned by U.S. individuals and entities. As a persistent player in the anti-counterfeiting community, DANY continues to focus attention to intellectual property theft and the emerging trends of IPR violators. Furthermore, DANY's cybercrime techniques provide a critical resource for it to pursue modern IPR violations, such as piracy and the theft of proprietary digital data. These legal mechanisms and investigatory methods will continue to provide the foundation for DANY's enforcement efforts in New York City, as IPR protection remains a prominent issue for prosecutors in New York County.

Endnotes

1. Geoff Duncan, *Cisco: 15 Billion Internet Devices by 2015*, Digital Trends (June 2, 2011), http://www.digitaltrends.com/computing/cisco-internet-traffic-966-exabytes-per-year-in-2015/.
2. John Koetsier, *800 Million Android Smartphones, 300 Million iPhones in Active use by December 2013, Study Says*, Venture Beat (Feb. 6, 2013, 9:26 AM), http://venturebeat.com/2013/02/06/800-million-android-smartphones-300-million-iphones-in-active-use-by-december-2013-study-says/.
3. The "Canal Street problem" refers to street peddlers and vendors of trademark counterfeit luxury items like handbags and watches, traditionally located in the Canal Street area of Chinatown, Manhattan.
4. *See* People v. Jan, Ind. No. 01784/2011 (Sup. Ct. N.Y. Cnty. May 22, 2012).
5. Examples of previous DANY cases include incidents of theft of client information forms, business transaction and financial data, and personal identifying information of employees and customers. *See, e.g., People v. Horvath-Giese*, Ind. No. 01694/2012 (Sup. Ct. N.Y. Cnty. Apr. 20, 2013) (computer tampering by former employees of Tom James Corporation prosecuted by DANY's Cybercrime and Identity Theft Bureau's Assistant District Attorneys Kenn Kern and Tracy Conn).
6. *See* N.Y. Penal Law §§ 156.29, -30, -35 (2013).
7. N.Y. State Legislative Annual 1986, *Computer Crime*, 232 at 233.
8. *Id.*
9. N.Y. Penal Law §165.07 (2013); *See also* People v. Russo, 501 N.Y.S.2d 276, 279 (1986) (pronouncing that a "computer program" qualifies as a scientific or technical process, invention or formula and is thus included within definition of "secret scientific material" for purposes of statute prohibiting unlawful use of secret scientific material).

David Szuchman is currently an Executive Assistant District Attorney and Chief of the Investigation Division at the Manhattan District Attorney's Office. David began his legal career at the Manhattan DAs Office in 1997 as an Assistant District Attorney in Trial Bureau 40. David later became a trial attorney in the criminal division of the U.S. Justice Department, assigned to the Child Exploitation and Obscenity Section and then worked as an Assistant Attorney General in the New York Attorney General's Office on complex fraud and anti-trust cases. In 2009 David was appointed as the Director of the New Jersey Division of Consumer Affairs. This department enforces laws and regulations designed to protect New Jersey's residents in the marketplace, including securities regulation and mortgage fraud enforcement. David was also responsible for internet safety initiatives on behalf of former New Jersey Attorney General Anne Milgram.

He rejoined the Manhattan DA's office in 2010 as Chief of the Cybercrime and Identity Theft Bureau. The Bureau is tasked with prosecuting all types of cybercrime, ranging from cyber stalking and child pornography cases to computer intrusions and malware. In addition, the Bureau handles over 200 identity theft cases per month. In April 2012 David was appointed Deputy Chief of the Investigations Division. In this position, he assisted Division Chief Adam Kaufmann in developing policies and investigative strategies, maintaining relationships with outside agencies, and helping to supervise investigations throughout the Division. David was appointed Executive Assistant District Attorney and Chief of the Investigation Division on November 15, 2012.

Jeremy Apple serves as the Senior Cybercrime Analyst for the Cybercrime and Identity Theft Bureau of the New York County District Attorney's Office (DANY). He is a Brooklyn Law School candidate for Juris Doctor in February 2014. In his role as Senior Cybercrime Analyst at DANY, Jeremy assists Manhattan prosecutors in all aspects of cybercrime and criminal fraud matters, including best practices for securing and utilizing of digital evidence in legal proceedings. Jeremy also coordinates DANY's Intellectual Property Enforcement efforts. In that role, Jeremy facilitates criminal prosecutions of intellectual property rights violators and serves as a liaison between DANY and private industry. At Brooklyn Law, Jeremy is pursuing a Certificate in Intellectual Property, Media, and Information law. He was selected as a student-fellow for the BLS Trade Secrets Institute during the 2012-2013 academic year, where he researched and performed in-depth analysis of important legal issues and decisions in trade secrets law and practice throughout the U.S. and internationally. Jeremy graduated with Honors from Union College in Schenectady, New York in 2009 earning a Bachelor of Arts in Philosophy.

Entertainment Immigration: Visas for International Artists, Entrepreneurs, and Corporate Entities

By Michael Cataliotti

Introduction

The last time we dined on entertainment immigration, we briefly touched upon each of the H-1B, H-2B, P, and O classifications as they were and are the most applicable to the arts community by their very nature. In this overview, we will go through some other visa options that may prove beneficial for the more business oriented artist.

When an individual seeks to enter the U.S. to build, expand, or develop his or her business, the visa categories most common in the arts community are generally not applicable; those visa categories contemplate pure employment of the individual by the American entity already in existence. As a result of this, let us evaluate some of the more common scenarios and their applicable visa categories, followed by a discussion of each category: (1) One individual who does not reside in the U.S., but owns an arts company, seeks to enter the U.S. to invest in and develop his or her company (E-2 / L-1A); (2) A company that is already organized outside the U.S. engages in a significant amount of trade between the U.S. and its principal place of business (E-1 / L-1A); (3) A company owned by one or more individuals seeks to expand its operations into the U.S. to set up a satellite office or otherwise by transferring one of its key employees (L-1A / L-1B / O-1A / *maybe* O-1B); and (4) An international entity seeks to enhance its operations already present within the U.S. by utilizing one of its best talents who will work within his or her craft (L-1A / L-1B / O-1A / O-1B).

Clearly, we will be working with alphabet soup this time around, and so let us dip our bread and soak up the flavor.

E-2: The International Investor

Taking up the first scenario above in which a business owner seeks to enter the U.S. to invest in and develop his or her company, we have the E-2 visa classification.

The investment possibilities are endless, and so for these purposes, let us assume that the business is a production company working in both pre- and post-production activities. The owner, a well-respected editor, director, and producer from Australia, requires a host of equipment (hardware and software) in the U.S. for the company to become functional. Our business owner has already invested $50,000 into the U.S. venture by putting up cash for equipment, and leasing workspace. He is going to be putting up an additional indeterminate amount of funds once stateside and may take out a loan or two to maintain liquidity. Now, we deconstruct.

The initial question that must be asked is whether there is an applicable "treaty of commerce and navigation" in place between the U.S. and investor's home country.[1] With this, the question of whether the company is owned 50% or more by an individual of a country with which the U.S. has such a treaty must be posed and answered in the affirmative.[2] Here, we have both of these satisfied, as the investor owns the company and is a national of Australia.[3] That the investment has already been made is crucial and that it has been put up in cash is ideal due to the fact that those funds are now placed "at risk," that is subject to a loss.[4] The future investments and their procurement may be beneficial, but this would remain to be seen depending upon the terms of the loans.

The biggest issue presented here is the amount of funds invested. Any amount below $100,000 will come under far more intense scrutiny by the adjudicating officer at the applicable embassy. Not that an investment at or below $100,000 will be outright denied, but it will be a definite uphill battle to demonstrate that the investment is substantial and not marginal, and that the business will be capable of supporting more than the investor alone.[5]

E-1: The International Trader…Not Benedict Arnold

In the second scenario above, the international business owner is involved in a significant amount of trade between his or her home country and the U.S. As with the E-2, we must look to whether the entity's nationality and that of the treaty trader is in accord with a "treaty of commerce and navigation."[6] What is different here is that rather than the amount of an investment being substantial, the trade must be substantial to the tune of 50% or more of the company's overall basis of trade.[7] Additionally, the definition of substantial trade is a bit amorphous and arguable, but can generally be expressed when there is a "continuous flow of sizable international trade items, involving numerous transactions over time."[8]

The most ambiguous aspect of this visa is the definition of trade. For those of us representing fashion enterprises, this may not be such a difficult issue. However, when we represent music publishing companies, the issue becomes significantly more convoluted in determining what does and does not constitute trade and a tradable asset.

A further discussion of the E-1 category will be taken up in the future where more space may be devoted to each of its intricacies.

L-1A and L-1B: Intracompany Transfers of Management or Individuals with Specialized Knowledge

The third situation involves two possibilities: (1) A company that is owned by multiple individuals, or has employees with high-levels of authority to act on its behalf, and seeks to transfer one of its key employees to its U.S. office; and (2) A small business with an office outside of the U.S. wants to send a key employee to build an American office for the non-U.S. entity. As the former is the most common scenario under which L-1 classification is sought, the L-1A and L-1B tend to be most useful for the practitioner acting as either in-house or outside counsel. The basic considerations are as follows:

- The petitioning employer must be in the U.S. and have a qualifying relationship with a foreign company; and
  - A "qualifying relationship" is one of the following:
    - The U.S. entity is the parent company;
    - The U.S. entity is a branch of the non-U.S. entity;
    - The U.S. entity is a subsidiary; or
    - The U.S. entity is an affiliate of the non-U.S. entity.
- The petitioning employer must also currently be, or will be, doing business as an employer in the United States and in at least one other country for the duration of the beneficiary's stay in the United States as an L-1.[9]

In the case of the employee entering the U.S., a/k/a the "beneficiary," he or she must also *generally* satisfy these two requirements:

- Have been working for a qualifying organization abroad for one continuous year within the three years immediately preceding his or her **admission** to the United States [emphasis added];[10] and
- Be seeking to enter the United States to provide service in an *executive* or *managerial capacity* (i.e., L-1A)[11] or in a *specialized knowledge capacity* (i.e., L-1B) for a branch of the same employer or one of its qualifying organizations [emphasis added].[12]

These basic elements are quite easy to satisfy and in the case of an in-house or outside counsel, will often be the easiest situation from which to petition.

A more common situation, however, involves the small business owner who does not have a U.S. base of operations and desires to set up a branch, subsidiary, affiliate or the like upon his or her entry. In such a case, the proper classification would be L-1A (for an executive or manager) and the small business owner must have someone else within the company with proper capacity (e.g., a CFO) to execute the necessary forms and petition on his or her behalf. In such a case, the petitioner must show an additional three elements:

- That it has secured *sufficient* physical premises to house the new office;
- The employee has been employed as an executive or manager for one continuous year in the three years preceding the filing of the petition; and
- The intended U.S. office will support an executive or managerial position within one year of the approval of the petition.[13]

Based upon these points, the next question that may come to mind is, "Why would anyone ever opt for E-2 over L-1A status if he or she is going to create a new office?" While the reasons are very particular to the set of circumstances and vary accordingly, one primary reason is that an initial E-2 filing is treated as an application and the requirements of "securing sufficient space" may not necessarily be applicable.

While more will come of the L-1A visa going forward, as it is greatly useful for the small business owner seeking to develop a new office in America, we now move on to O-visa classification and deviate from the formation of a new office ever so slightly.

O-1A and O-1B: Individuals of Extraordinary Ability

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, but is rarely ever utilized by the non-U.S. artist to open a business in the States, and for good reason.

As stated above, the O-visa is intended for employees. For clarity, an individual seeking O status may not "self-petition" or "self-sponsor" for himself or herself to receive O status. This means that the beneficiary may not sign his or her own paperwork seeking this status, and as such, must be an employee with a less than majority ownership interest.

This has been problematic because U.S. Citizenship and Immigration Services (USCIS) tends to maintain its antiquated view that the threshold determination is actual control, rather than the right to control. This counters and negates Donald Neufeld's memorandum of 2010, in which he wrote that "[t]he *right* to control the beneficiary [which] is different from *actual* control. An employer may have the right to control the beneficiary's job-related duties and yet not exercise actual control over each function performed by that beneficiary. **The employer-employee relationship hinges on the *right* to control the beneficiary**" [emphasis added].[14]

Ultimately, be very wary of an owner-artist seeking O-1 status. It is rarely going to be the most applicable or safest visa option for the potential beneficiary. That being said, however, in order for the owner-artist to enter under O-1 status, the petitioner must be formed prior to submitting the petition to the Service, it must be functional, and there should be various elements in place that would point to the owner-employee as being subject to the control of the entity.

Now, we reroute our O course and take up a separate, yet very important, consideration to bear in mind when working with the prospective beneficiary of O-1 status: the act of freelancing. An O-1 beneficiary cannot freelance. The beneficiary may engage in additional activities with third-parties provided those additional activities fall in line with those duties and events stated within the petition, along with the terms of employment. In the event they do not, then an amended or second petition should be filed. For instance, in the case of a musician who is going to be playing with a band that will be touring, a detailed itinerary should be provided indicating tour dates, locations, and parties involved. Sadly, if the beneficiary is a producer or anyone working within film and television, then the itinerary requirements are significantly higher, though not due to specifically required USCIS review, but rather, as a result of the mandatory requirement that those individuals' qualifications be reviewed by both a labor and management organization prior to submission to USCIS.[15] Taking a look at this aspect of the immigration process for a film editor, for example, we see that the editor's petition must be reviewed by one labor organization, generally International Alliance of Theatrical Stage Employees (IATSE), and one management organization, always the Alliance of Motion Picture & Television Producers (AMPTP). Looking to the latter, AMPTP requires the submission of a "deal memo" for each production listed in the petition, or each production being undertaken as set forth in the itinerary. The elements of the AMPTP deal memo include the name and title of the production, its approximate start date, duration, and the nature of the project.[16] Additionally, if the production is a commercial, it falls within a separate set of requirements that include the projected fee, production location, production company name, the artist name, position to be fulfilled, dates required, and must be executed by the production company named on the deal memo.[17] Samples of both styles are available at AMPTP's website under its O-1 / O-2 Visas section.[18] Using one and not the other improperly will cause a delay in the processing of the case by AMPTP and ultimately protract the time frame within which the beneficiary may receive his or her approval, so the practitioner who is unsure of which one to use would be best advised to reach out to AMPTP's immigration department directly with any questions.

We have sopped up all of our alphabet soup that was on the menu at this time, and in keeping in line with the last article, have now gone through each visa that may be afforded to a foreign entertainer or artist. Most importantly, we delved a bit deeper into the murkiness of the O visa. Perhaps next time, we will concentrate strictly on one or two visa types and dive headfirst into the fun that is Alphabet City.

Endnotes

1. U.S. Citizen and Immigration Services, *E-2 Treaty Investors* (Apr. 14, 2010), http://www.uscis.gov/portal/site/uscis/menuitem.eb1d4c2a3e5b9ac89243c6a7543f6d1a/?vgnextoid=2ea36811264a3210VgnVCM100000b92ca60aRCRD&vgnextchannel=2ea36811264a3210VgnVCM100000b92ca60aRCRD.
2. *Id.*
3. Travel.State.Gov—A Service of the Bureau of Consular Affairs, U.S. Department of State, *Treaty Countries* (Aug 28, 2013), http://travel.state.gov/visa/fees/fees_3726.html.
4. *E-2 Treaty Investors*, *supra* note 1.
5. *Id.*
6. U.S. Citizen and Immigration Services, *E-1 Treaty Traders* (Apr. 14, 2010), http://www.uscis.gov/portal/site/uscis/menuitem.eb1d4c2a3e5b9ac89243c6a7543f6d1a/?vgnextoid=05536811264a3210VgnVCM100000b92ca60aRCRD&vgnextchannel=05536811264a3210VgnVCM100000b92ca60aRCRD.
7. *Id.*
8. *Id.*
9. U.S. Citizen and Immigration Services, *L-1A Intracompany Transferee Executive or Manager*, (June 17, 2013), http://ww.uscis.gov/portal/site/uscis/m.9243c6a7543f6d1a/?vgnextoid=64d34b65bef27210VgnVCM100000082ca60aRCRD&vgnextchannel=64d34b65bef27210VgnVCM100000082ca60aRCRD.
10. *Id.* (emphasis added).
11. *Id.*
12. U.S. Citizen and Immigration Services, L-1B Intracompany Transferee Specialized Knowledge (Sept. 28, 2012), http://www.uscis.gov/portal/site/uscis/menuitem.eb1d4c2a3efb9ac89243c6a7543f6d1a/?vgnextoid=bfd10b89284a3210VgnVCM100000b92ca60aRCRD&vgnextchannel=bfd10b89284a3210VgnVCM100000b92ca60aRCRD (emphasis added).
13. U.S. Citizen and Immigration Services, L-1A, *supra* note 9.
14. Donald Neufeld, U.S. Citizen and Immigration Services, *Determining the Employer-Employee Relationship for Adjudication of H-1B Petitions, Including Third-Party Site Placements* (Jan. 8, 2010), available at http://www.uscis.gov/USCIS/Laws/Memoranda/2010/H1B%20Employer-Employee%20Memo010810.pdf 3 n.6. (emphasis added) (It should be noted that this Memorandum was never adopted nor put into effect in any serious manner. Additionally, even though it references H-1B specifically, there was never any reason to assume or expect it to be limited in scope to H-1B visas. Sadly, this has never held true and the overall effect is the draconian view of an employee.).

15. U.S. Citizen and Immigration Services, O-1 Visa: Individuals with Extraordinary Ability or Achievement (Mar. 16, 2011), http://www.uscis.gov/portal/site/uscis/menuitem.eb1d4c6a7543f6d1a/?vgnextoid=b9930b89284a3210VgnVCM100000b92ca60aRCRD&vgnextchannel=b9930b89284a3210VgnVCM100000b92ca60aRCRD.

16. Alliance of Motion Picture and Television Producers, Required Documents for O-1 Advisory Letters, http://www.amptp.org/files/immigration.pdf.

17. *Id.*

18. *Id.*

Michael Cataliotti is an entertainment attorney who practices primarily in the areas of business immigration, entertainment transactions, and corporate governance for U.S. start-ups and expansions. He advises individuals and companies from such industries as music, fashion, film, television, art, theatre, digital media, literature, and food and beverage. Michael is a member of the American Immigration Lawyers Association (AILA) and an active supporter of FWD.us.

The "Disquieter" Doctrine: German Law and Responsibilities of File-Sharing Websites

By Ed McCoyd

I. "Disquieters" and Duties of Care

Judicial decisions by U.S. courts interpreting and applying Section 512 (c) of the Digital Millennium Copyright Act (the DMCA)[1] have placed the onus squarely on the shoulders of copyright holders to continuously monitor for infringements and send vast numbers of takedown notices in an attempt to battle the unauthorized distribution of their content on file-sharing sites which provide hosting space to uploaders, even when those sites are rife with infringements. In striking contrast, rights holders located in the United States and elsewhere have won actions brought against such sites in German courts, which have repeatedly and at the Supreme Court level held sites more accountable to take steps to prevent infringements pursuant to what is known in Germany as the "disquieter" doctrine.

"Störerhaftung," a legal principle, which translated into English means "responsibility of the disquieter," has been applied by courts in Germany to impose a duty of care on a number of services providing hosting space and file-sharing capability to Internet users. Specifically, if the host can be shown to have causally contributed to – even if it did not directly engage in or abet—the infringement and is in a position to prevent such activity, the service is deemed a "Störer" (which translates in to English as a "disquieter" or "disturber"), and an injunction can be issued requiring it to take reasonable measures to impede further infringements of the same copyrighted works via its service.[2]

II. RapidShare.com

A number of these decisions have been in actions brought against a popular hosting service called RapidShare. Originally rapidshare.de and eventually changing its domain name to rapidshare.com, the Switzerland-based site has for many years provided server space to which users can upload files. Each such file is assigned a unique link by RapidShare, enabling the uploader—as well as any third party with whom the uploader may share the link—to access and download the material from RapidShare's servers. While RapidShare does not have a files search function on its own site, significant numbers of links to RapidShare-hosted infringements of copyrighted materials have for a long time been made available on a wide variety of third-party "linking" sites. The linking sites themselves are often searchable, as well as discoverable on popular search engines (such as by entering terms including the title of the content, and the word "Rapidshare," in a Google search). While anyone can upload or download files to and from the service without charge, RapidShare sells premium registrations to users on a monthly paid subscription basis, providing advantages such as faster downloading and greater file-storage capacity.

RapidShare has generated extraordinarily widespread use by uploaders and downloaders of infringements. In May 2010, the bicameral and bipartisan U.S. Congressional International Anti-Piracy Caucus included RapidShare in a select list of overseas websites identified for providing unauthorized files of copyrighted works made by U.S. creators.[3] In a litigation by two German publishers discussed below, an appellate court in Hamburg calculated that approximately 30,000 infringements were uploaded to RapidShare's servers daily at one point in time.

III. GEMA Litigations

In January 2007, GEMA, the German licensing and collecting society for composers, lyricists, and music publishers, announced that it had won an injunction from the Regional Court (Landgericht) of Cologne to prevent RapidShare from distributing certain GEMA-licensed musical works.[4] In a subsequent action in the Regional Court (Landgericht) of Hamburg, GEMA in December 2009 secured an order from the Court prohibiting making available a number of musical works listed in three annexes to the decision—one of which contained 1,687 works—via RapidShare.com.[5]

IV. U.S. Textbook Publishers' Action

In early 2010, six U.S.-based publishers of college textbooks brought an action against Rapidshare AG (the corporation in Switzerland), then-executive manager Christian Schmid, and then-managing director Bobby Chang in the Regional Court of Hamburg for infringement of their products. The Court awarded a preliminary injunction requiring RapidShare to prevent continuing infringement of the 148 of the publishers' works which were the subject of the action.[6]

V. German Publishers' Action—Decision by the Hamburg Higher Regional Court

On March 14, 2012, the Hamburg Higher Regional Court (Hanseatisches Oberlandesgericht, also referred to herein as the Court of Appeals) ruled in favor of German book publishers Walter de Gruyter GmbH & Co. KG, and Campus Verlag GmbH, against RapidShare AG, Christian Schmid, and Bobby Chang.[7] The case was an appeal by the defendants from a judgment of the Regional Court of

Hamburg, 10th Civil Chamber, on January 14, 2011. The judgment below had prohibited the defendants "from allowing" specific, previously infringed literary works of the Claimants "to be made accessible to the public in the Federal Republic of Germany via the online service www.rapidshare.com." The defendants were also required to bear the costs of the proceedings. The Higher Regional Court upheld the order of the Regional Court.[8]

The Court of Appeals referenced Article 19a of the UrhG (Übersetzung durch Ute Reusch), the German copyright act, which reads:

> Article 19a Right of making works available to the public
>
> The right of making works available to the public shall constitute the right to make the work available to the public, either by wire or wireless means, in such a manner that members of the public may access it from a place and at a time individually chosen by them.[9]

The Court held that the Regional Court was correct in finding that the plaintiffs' works were made available to the public in accordance with the definition in Article 19a at the time the links to infringing files of these titles hosted on RapidShare were offered to third parties, without restrictions, via download link libraries on the Internet.[10] The Court of Appeals said that this decision was a change from a previous opinion by it in 2008 (referred to by the Higher Regional Court as "*RapidShare I*") that works were made accessible within the meaning of Article 19a as soon as they were uploaded to RapidShare's servers.[11] In *RapidShare I*, the Court's ruling was related to infringing activity which took place in October 2006; the Court considered RapidShare's service at the time to be aimed primarily at illegal utilization, so that the uploading of copyrighted content onto RapidShare could be considered a clear indication of intent to subsequently make the link to this stored content available to the public.[12]

In the current case, however, the Court found that a widespread, legitimate "cloud" storage services industry—enabling individuals to store their data files on third-party servers, in addition to or instead of on their own computers, for personal retrieval and use or even sharing of non-infringing content with third parties—had emerged since that time. It found that RapidShare was structurally comparable to many of these services despite the greater proportion of infringing activity happening via its servers.

The Court noted that in the fall of 2009, the computer manufacturer Dell, for example, had announced a service for the storage of regular backups of data on Dell's servers rather than locally on customers' personal computers. It also pointed to the existence of what were in its estimation numerous other respectable cloud services—such as the online photo storage, editing and sharing service Picasa.com—which facilitated access to content by anyone with whom the uploader shared the link to the storage location. Additionally, the Court discussed services such as Google Docs which enabled joint editing of documents online by numerous individuals working from different locations on their computers.

As for RapidShare itself, the Court seemed especially swayed by the magazine *Computerbild's* 2011 ranking of RapidShare second—ahead of popular, reputable service providers in Germany such as web.de and GMX—in the category of online cloud storage services. It therefore placed RapidShare on the same level with legitimate providers insofar as lawful cloud storage uses of its service were made.[13]

The reasoning by the Court in its revised application of Article 19a, therefore, was that whereas previously it could be presumed that a copyrighted work uploaded onto RapidShare's servers was intended ultimately to be downloaded by third parties (and would therefore be infringed upon), such a presumption no longer existed because uploaders to RapidShare could also be using the service for legitimate cloud storage purposes, which the Court viewed as potentially including activities such as legally backing up[14] content which they had purchased. On the other hand, if following upload the copyrighted work was then made available to other members of the public through the posting of the link to the content—such as on a third-party linking site—then the work would be deemed made available to the public and infringed under Article 19a.[15]

Determining that the defendants were "indirect infringers," the Court said that a party can be held liable as such if it contributes in an adequately causal manner to the violation of the protected right.[16] The Court said that if a service is lawful, a claimant seeking to hold the site liable as a Störer must show some special infringement risk potential associated with the site, in addition to specific evidence of infringements.[17] Here, the Court found that the site's structure and business model carried an inherent risk of copyright infringements being committed on such a massive scale that the defendants could reasonably be expected to fulfill strict obligations to monitor and act.[18]

Holding the defendants liable as indirect infringers with regard to the 12 literary works which were the subject of the German publishers' action, the Court said that the defendants were thus liable to "cease and desist," meaning that going forward they must engage in reasonable monitoring and other measures to prevent further infringements of these works from being made available via the service.[19] As the defendants' service was lawful, there was a reasonableness limitation on their obligations.

A court order requiring the defendants to completely cease and desist from allowing further infringements of the works, with no reasonableness limitation, would only be justified if the defendants' business model were on the whole found to be illegal.[20]

Asserting conformance with European Union (EU) law, the Court cited a judgment of the European Court of Justice (ECJ) in *L'Oréal SA v. eBay International AG*,[21] a case involving infringements of the claimants' trademarks by individual sellers on the popular online marketplace eBay. Specifically, the ECJ judgment stated the following conclusion:

> The third sentence of Article 11 of Directive 2004/48/EC of the European Parliament and of the Council of 29 April 2004 on the enforcement of intellectual property rights must be interpreted as requiring the Member States to ensure that the national courts with jurisdiction in relation to the protection of intellectual property rights are able to order the operator of an online marketplace to take measures which contribute, not only to bringing to an end infringements of those rights by users of that marketplace, but also to preventing further infringements of that kind. Those injunctions must be effective, proportionate, and dissuasive and must not create barriers to legitimate trade.[22]

The Hamburg Higher Regional Court noted that in the case before it, RapidShare had been made aware by the plaintiffs in a letter dated September 2, 2009 that the literary works at issue could be downloaded from rapidshare.com. The defendants had thus obtained the necessary knowledge allowing them to deploy specific measures to avoid further infringements, the Court said, yet the infringing literary works continued to be made available.[23]

The Court stated further that the principles applicable to online marketplaces like eBay could also cover the defendants' file-sharing service, because RapidShare commercially provided its users with the ability to engage in activities on the Internet which carried an inherent, specific risk of infringements on a large scale.[24] The Court said that criteria had been developed by the ECJ and the German Federal Court of Justice (Germany's highest court) for evaluating whether a service goes beyond the role of a "neutral intermediary" by taking on an "active role" (apparently equating, for the purposes of the German court rulings, to contributing in an adequately causal manner to the violation of the protected right).[25] The decisive issue was whether the provider offered potentially infringing goods or services via the site, and in doing so attempted to obtain a financial advantage it would not enjoy if the defendant restricted itself to the role of a more neutral intermediary.

Put another way by the Court, the inquiry regarded whether the defendants' business model, due to the structural particularities of the service, had a tendency to encourage users to commit infringements with less risk than they would incur in different environments as direct infringers. The Court found that RapidShare provided anonymity to its users, thereby enabling them to commit infringement with little risk of being held personally liable.[26]

Furthermore, the operator of a file-sharing service stood to profit from the service being used by as many people as possible, since greater usage would increase advertising revenue or fee-based premium accounts on which the business could be based. In this case, the parties had not submitted information regarding how and to what extent the defendants' service was funded. However, the Court concluded that there could be no doubt that the defendants generated significant revenue from their service, since the company was a legally formed corporation with more than 50 employees, and maintained server farms to support massive storage capacity.[27]

It was also noteworthy to the Court that in a separate proceeding brought by GEMA against the same defendants, GEMA had submitted the following information regarding RapidShare's status, which the Court said RapidShare did not contest in its statement of defense on October 1, 2009:

- RapidShare was the largest file-hosting service in the world.
- RapidShare ranked sixteenth in the world among "top sites," above well-known services such as eBay and AOL.
- 3.3% of all Internet used worldwide accessed the service.
- The site received 42 million users per day.
- In 2008 alone, 160 million files were uploaded to the service.
- 150,000 files were being uploaded to the service daily.
- As early as 2007, the defendants had monthly revenue of approximately € 5 million (or € 60 million annually) from the service.[28]

The Court said also that according to the defendants' own submissions, 500,000 new files were uploaded to the service daily.[29] The Court noted that artificial impairments for non-premium account users, particularly a reduction in download speeds, made premium accounts more attractive for people interested in downloading infringing content.[30]

The record indicated that as of late 2009 (the time when the infringements in the case were committed), the defendants had advertised to potential users that some files on its service had been downloaded more than 100,000 times, that RapidShare would, at the request of a user, notify up to three additional users about the availability of a file he or she had uploaded, and that: "Using the completely free 1-click webhosting, you can quickly and easily place your files online. You decide who can download your files."[31] These statements by RapidShare made it clear, in the Court's view, that files uploaded to the service were not intended exclusively, or even primarily, for uploaders' personal use.

Furthermore, the Court pointed out that RapidShare had in the past—including during the time when the infringements in the current case were committed—offered a "RapidPoints" bonus system, whereby uploaders would earn "premium points" credits each time a third-party user downloaded their files.[32] Uploaders earning a certain number of points could trade them in for free premium accounts. The Court concluded that the RapidPoints feature was only beneficial for uploaders of infringements of high-demand copyrighted works, as opposed to files such as personal holiday photos, legal briefs, or business presentations, which would not be downloaded by significant numbers of other individuals.[33]

Despite the fact that the defendants stopped putting forth statements like those mentioned above and discontinued the RapidPoints program, the Court concluded that effects of this past conduct likely remained in users' consciousness and continued to attract them to the service for the purposes of engaging in infringement. There was no indication, the Court said, why infringers would stop using the services just because the defendants had ceased advertising it for this purpose.[34]

Indeed, the Court surmised that a site used purely for legitimate cloud storage would not be visited by 42 million people daily, amounting to 3.3% of all Internet users worldwide.[35] It also reported that in the *RapidShare I* proceeding, the defendants had conceded that the rate of abuse of their site for the commission of copyright infringement was between 5% to 6%. Applying the previously mentioned upload volume of 500,000 files daily, the Court calculated that at the time of the prior proceeding approximately 30,000 infringing uploads were made to the service each day, and added that the number of infringements would remain significant even if the abuse rate had since dropped to, say, 1%.[36]

The Court therefore ruled, in effect, that the defendants' enhanced duty of care continued despite the cessation by RapidShare of certain of its past activities which had promoted infringement, and pointed to the sheer vastness of the amount of infringing use, which could reasonably be assumed to be occurring on the service as further support for requiring the defendants to exercise a greater duty of care in comparison to more neutral services.[37]

As mentioned earlier, the Court also deemed RapidShare's provision of complete anonymity to users as a structural particularity of the service having a tendency to encourage infringement, because it served to protect infringers against action by rightsholders.[38] Citing this as a "decisive factor" in its determination that the defendants were actively promoting the use of their service for the commission of copyright infringement, the Court found that RapidShare did not require information from free and premium users which would help identify them personally, such as if the defendants were compelled by law to disclose to an aggrieved rightsholder any personally identifying information that the service held regarding an infringing user.[39]

The Court did not address the degree to which making payments for a premium subscription might inherently identify a user (such as paying with a personal credit card) or, on the other hand, discuss in any depth how premium users might pay for their subscriptions while concealing their identities. It did emphasize that although an e-mail address was required to establish an uploader account on the service, e-mail addresses could be created in a variety of ways without having to submit verifiable personal identification data.

While stating that RapidShare had a legal right to collect and store personally identifying data from users,[40] the Court was not required, in its own view, to determine in the case whether the defendants would be authorized or obligated in certain instances to identify infringers known to them. It found that the service was particularly attractive to infringers because they knew that in any event, RapidShare simply had not collected sufficient information to be able to identify them.[41]

The Court then discussed the defendants' monitoring obligations once they had been made aware of infringements actually committed on their service with respect to particular works (such as the 12 titles in the case at hand), and held that they must take measures not only to halt the infringements already made available, but also to prevent further infringements of the same works. It said that reasonable monitoring measures could be required, although a fair balance must be struck between protecting copyright owners' rights and not undermining the freedom of service providers to conduct legal business activities.

The judgment found that the defendants failed to comply with the reasonable monitoring obligations which became incumbent upon them once they had been informed of the infringements of the plaintiffs' titles. First, the defendants' disclosures in the case regarding the monitoring efforts they had deployed were considered insufficiently specific. Second, the Court also deemed the fact that the infringements of the identified works continued to be made available from RapidShare's servers to be proof in and of itself that the measures taken by the defendants were not effective.

The Court went on to identify a number of steps the defendants would need to take to fulfill their duty of care to prevent additional infringements of works after being notified by a copyright holder about the distribution of an infringing link, including any further infringements of the plaintiffs' 12 literary works. These measures included:

- Devoting the necessary level of staff to carry out prevention measures effectively. The defendants could not invoke lack of personnel resources as a reason for not implementing required action.
- Maintaining a download limit to reduce infringements generally via the service. The Court referenced a 10-download limit RapidShare had previously introduced with respect to files uploaded by non-premium users. It appeared neither to endorse, nor to prescribe some download limit structure other than this specific approach already implemented by RapidShare, although the Court emphasized that the measure would not by itself altogether prevent infringements of the plaintiffs' titles.
- Continuing to state in the terms and conditions that it is illegal to upload copyright infringing works, although this measure, too, would have limited preventive impacts on infringement.
- Deleting files which had been found to infringe, and deleting the accounts of users found to have posted infringements to third-party linking sites, even if it was a first detected offense. The defendants would also, however, have to provide sufficient advance notice to these users so that they could take appropriate steps, such as securing materials they may have been storing legally on the service. The Court acknowledged that infringers whose accounts were deleted could easily create new accounts with the use of a substitute e-mail address, but nevertheless saw this measure as at least somewhat useful for preventing infringements in that it would inconvenience and disrupt these individuals.
- Using "MD5 hash" filtering. As was explained by the Hamburg Regional Court in its December 6, 2009 decision in GEMA's action against RapidShare, the MD5 procedure uses data recognition to prevent the uploading of files which are identical to those which have previously been taken down for containing infringements of copyrighted works. Blocking the upload itself is warranted in these instances, because files identified by the MD5 process are duplicates of files already determined to be infringing, rather than potential legal backup copies. The Higher Regional Court noted, though, that this measure only captures files which constitute complete matches, and can be overcome by changing just a few bits of data or making available a different file containing the same work. Furthermore, it was pointed out that uploaded compressed package files (such as to deliver large or numerous content items) were not automatically unpacked by the MD5 search mechanism, and that the individual files they contained were therefore not checked.
- Monitoring third-party link libraries to prevent the repeated dissemination of works which have already been identified as infringed. The Court emphasized this particular measure as one of vital importance, and specified that the defendants were obligated to search for links containing either the full title of the protected work, or portions of the title indicating that the work was being made available through the given link. Published links to additional infringements of the copyrighted works hosted on RapidShare must be "effectively and comprehensively" neutralized by the defendants "within a very short period of time," although the Court did not define this time period (such as a specific number of days or hours) other than to say that the infringements must be removed "without delay." Furthermore, the defendants were required to examine not only published links, but also information around the links such as a description of the available file, in case of instances where the title of the link had been designed so that the stored work could not be recognized from the link title with necessary clarity.
- The Court noted that the plaintiffs had identified commercially available software which had enabled them to find significant numbers of infringements of their works through automated searching of link libraries, and that the defendants had not contested in any meaningful way that they, too, could use such software to support their compliance with the injunction. A requirement to register to use a link site before searching on it would not exempt the defendants from searching the given site, the Court held, since they could register there just like any other user.
- Conducting appropriate keyword searches via popular services such as Google, Facebook, Twitter, and others, to see whether the results included additional links to RapidShare-hosted infringements beyond those already found by monitoring known link sites.[42]

The defendants were required to continuously apply the various measures stated above "comprehensively and as effectively as possible," the Court said, while leaving it to the defendants to determine the extent and other specifics of their implementation of each of these measures. The Court did not prescribe which particular link libraries the defendants were obligated to examine, the required extent or frequency of the searches, or the search terms to be used; nor did it spell out how many staff members should comprise RapidShare's abuse department carrying out these responsibilities.[43]

At the same time, the Court stated that should the measures listed above turn out to be insufficiently effective in preventing further infringements, the defendants would have to consider whether to impose a registration requirement for all uses of the service, and / or the collection of certain personal data from users, to discourage infringing activity by taking away users' sense of security from remaining anonymous.[44] It noted that the European Court of Justice had ruled that the operator of an online marketplace where goods were sold by individual account holders could be required to implement measures facilitating identification of sellers to ensure the availability of legal redress for injured parties.[45] The Hamburg Higher Regional Court declined, however, to address in the current case whether similar obligations could be imposed on a file-sharing service such as RapidShare.[46]

As to the prospective question of whether the defendants would ultimately be deemed to have legally fulfilled their monitoring obligations pursuant to the Court's decision, the Court said that the answer might only be determinable in any future proceedings relating to the imposition of a fine for non-compliance with the injunction. Subsequent to the issuance of a German court order requiring a Störer to prevent further infringements of the works which are the subject of the action, the copyright owner may seek court-imposed fines on the defendant if the works end up again being made publicly available for download from the site.[47] A defendant in such a proceeding could successfully claim lack of culpability if it persuaded the Court that it could not detect the additional infringements despite implementing reasonable measures.[48]

The inquiry in a proceeding regarding whether a fine is to be imposed may include whether the defendant has reached capacity limits beyond which it is not able to adequately and fully comply with its obligations. The Court said that the scope of the obligation owed correlated with the size of the relevant service; with respect to file-hosting sites, the more significant the extent of data storage from which a defendant enabled and directly profited from, the greater the scope of its obligation to take measures and assign personnel to prevent further infringements.[49]

VI. German Supreme Court

The Federal Court of Justice (Bundesgerichtshof – BGH) is Germany's Supreme Court. On July 12, 2012, that Court overturned the Higher Regional Court of Düsseldorf's dismissal of an action brought by Atari Europe (Atari) against RapidShare, which had sought an order requiring the prevention of further infringements of Atari's computer game product "Alone in the Dark."[50] The appealed decision, as well as separate rulings by the Düsseldorf court[51] in cases brought by Capelight Pictures against RapidShare, had represented a departure from court rulings in other jurisdictions such as in the various proceedings discussed above, where claimants successfully requested cease-and-desist injunctions against file sharing services.[52]

The opinion of the Supreme Court in the *Atari Europe* case was consistent with most of the key points also made in the Higher Regional Court of Hamburg's decision in Walter de Gruyter and Campus Verlag's action against RapidShare. The Supreme Court held that a file-hosting service providing storage space on the Internet can be held liable as a disquieter if infringements are made publicly accessible by users of its service after it has been notified of infringement of the same work or works.[53] The service must, within the boundaries of what can reasonably be expected in technical and economic terms, prevent the same or other users from again offering the copyrighted material via its servers.[54]

Like the Hamburg Higher Regional Court, the Supreme Court also held that the service was lawful and that links to files of copyrighted works uploaded to its servers therefore could not be assumed destined for infringing publication.[55] In defining some of the specifics of RapidShare's duty of care, however, the Supreme Court went further than the Hamburg Court by indicating that RapidShare could be required to conduct word searches of the content of its servers, and to delete stored files containing copies of the works which had previously been infringed, upon finding them through either the use of the word filter or the inspection of links on third-party sites.[56]

The Court acknowledged Article 69d, Paragraph 2 of the German copyright law's provision that: "The making of a backup copy by a person having the right to use the computer program may not be prevented by contract insofar as it is necessary to ensure its further use,"[57] and remanded a number of issues—including whether Atari's game was secured by technical controls on copying and how purchasers' rights under Article 69d could be satisfied—to the Düsseldorf Higher Regional Court for further findings. The Supreme Court noted, however, that even if the defendant had to delete legal backup copies of the game stored on RapidShare's servers in individual instances, this would not render the due diligence obligations unreasonable. The defendant could safeguard itself, the Court said, by reserving in user agreements its right to engage in this step, and by informing users in advance of a file deletion so they could make new backup copies somewhere else. The Court stated further that although requiring the defendant to delete files on its servers could slightly restrict legal usage of RapidShare, such a restriction would have to be accepted in the interest of enabling effective copyright protection, so long as the defendant's legitimate business model was not fundamentally affected.[58]

On August 15, 2013, the Supreme Court dismissed an appeal by RapidShare of the Hamburg Higher Regional Court's judgment in the *De Gruyter* case.[59] The Court affirmed almost every aspect of the appellate court's decision relating to RapidShare,[60] except that as in the *Atari* proceeding, the Supreme Court held that RapidShare's duty of care included the obligation to use word filters to find content on its own servers, and to delete any detected files containing copies of the previously infringed works.[61] The Court also reaffirmed its own position with respect to backup copies:

> The fact that the examination obligations incumbent upon the Defendant may in individual cases also result in a deletion of lawful back-up copies does not render their fulfillment unreasonable…If a specific copyrighted work has already once been made publicly accessible in an unlawful manner via the Defendant's service, any subsequent uploading of such work always bears the risk of also being used in violation of copyrights.[62]

With these judgments, the Supreme Court has established unequivocally that file-hosting sites whose structure and business model carry significant risks of promoting copyright infringement must fulfill a heightened duty of care to prevent additional infringements of copyrighted works already unlawfully made available via their services.

VII. Contrasting Case Law in the United States

Redress for content owners bringing actions against hosting sites in U.S. courts has been more limited, due to the breadth of protection for Internet-based sites and services under the "safe harbor" provisions of Section 512 of the DMCA as they have been interpreted and applied in judicial decisions here. In landmark cases brought by copyright owners against sites hosting and delivering streaming video content uploaded by significant numbers of users,[63] the Second and Ninth Circuit Courts of Appeals have both held that actual knowledge or awareness of specific, identifiable infringements—including their location on the service, usually identified by the specific URL link—is needed in order for a service provider to be required to remove the infringements. Actual knowledge that the material is infringing, the courts have said, means knowledge based on the service provider's subjective belief. "Awareness" means awareness "of facts or circumstances from which infringing activity is apparent" and is based on an objective, reasonable person standard; known as "red flag" awareness, it turns on whether the service provider was aware of facts that would have made the specific infringement "objectively" obvious to a reasonable person.

Unless a site voluntarily takes more proactive steps, such as implementing content identification technology to prevent further infringements of copyrighted works flagged as unauthorized for distribution, the conditions discussed above have the effect of requiring the copyright holder to send a DMCA takedown notice to the site in the event of each new infringement, identifying the specific infringement along with its URL and demanding that it be blocked or removed. Under these decisions there is no duty on the part of the site thereafter to prevent new infringements of the same copyrighted works from being made available, unless and until the site again obtains knowledge or awareness, such as by receiving another takedown notice from the content owner. The Second and Ninth Circuits have based the "no duty to monitor" elements of their rulings on Section 512 (m) of the DMCA, which provides in part that nothing in Section 512 can be construed to condition its safe harbor provisions on "a service provider monitoring its service or affirmatively seeking facts indicating infringing activity…"

In a copyright infringement action brought against RapidShare itself in the U.S. District Court for the Southern District of California in 2009, the court denied a motion for a preliminary injunction by the plaintiff, an adult entertainment company called Perfect 10.[64] There were flaws in the plaintiff's preparation of its case, including that in lieu of sending a standard DMCA takedown notice, it had sent RapidShare a disc containing hundreds of its copyrighted images but no information regarding the URL locations of the infringements of these works hosted on the site (the files on the disc were, however, organized by the names of the adult models appearing in the images).

Finding that Perfect 10 had not met its burden to show that it was likely to succeed on the merits of its claims for either direct or contributory infringement, the court, interestingly, mentioned steps taken by RapidShare reflective of some of the duty-of-care obligations specified by the German courts in the decisions discussed above. Specifically, the District Court pointed to the following information from the defendant's own filing ("Zada" refers to Norm Zada, the founder of Perfect 10):

> RapidShare cannot locate and delete files where the only information provided is [an] image. See Hartojo Dec., ¶ 14. However, the Abuse Department was able to find and take down certain files whose download links were identified on the screen shots that Zada attached

> to his declaration…and also proactively searched the third-party websites identified in his declaration, such as filestube.com, and took down any files listed on those sites that appeared to be suspect. See [id.] ¶ 12. In addition, the download links identified in the complaint have also been disabled and the files deleted. Id. ¶ 13. The Abuse Department has also begun probatively searching Google and Bing.com for files that may contain the words "RapidShare" and either "Perfect 10" or the names of specific models identified by Zada. Id. ¶ 15.

VIII. U.S. Copyright Act Review

At a World Intellectual Property Day celebration at the U.S. Library of Congress on April 24, 2013, Congressman Bob Goodlatte, Chairman of the Judiciary Committee of the House of Representatives, announced that the Judiciary Committee was embarking on a comprehensive review of U.S. copyright law involving a series of hearings "to determine whether the laws are still working in the digital age."[65]

The first hearing featured testimony from five participants in the Copyright Principles Project (CPP), a group of 20 experts including law professors, lawyers from private practice, and lawyers for companies in copyright-based industries convened beginning in 2007 by Pamela Samuelson, Professor of Law and Information at the University of California, Berkeley. The goal of the CPP, as explained in a 2010 article jointly authored by its members and published in the *Berkeley Technology Law Journal*, "was to explore whether it was possible to reach some consensus about how current copyright law could be improved and how the law's current problems could be mitigated."[66]

While the article runs 68 pages and contains discussion, a statement of principles, and 25 reform proposals across a broad array of issues, the ninth proposal warrants particular attention here:

> Recommendation #9: Online service providers that deploy reasonable, effective, and commercially available measures to minimize infringement should be eligible for a safe harbor from liability for the infringing acts of others.

Underneath this recommendation, the CPP's article discusses it in greater depth, stating at the outset:

> Online service providers, whose facilities make such activity possible, may sometimes be in the best practical position to deploy preventive technological measures. This proposal would create a new safe harbor for online service providers that undertake to do so.

The document goes on to note technological advancements in this area spurred by commercial motivation among developers:

> Since the enactment of the DMCA, technologies have become much better at recognizing and filtering out infringing copies of works available on or being distributed via the Internet. Most of this technology has been developed by small entrepreneurs who see a potential market for the technology among service providers and content companies.

The CPP also expressed a view that:

> Copyright owners should bear a share of the costs of such measures, particularly with respect to producing information about what works may or may not be distributed over the ISP's networks.

It is encouraging that this diverse group of copyright specialists included Recommendation #9 in its report. When Congress enacted the DMCA's notice-and-takedown framework in 1998, it sought to balance copyright protection with the provision of workable protections from secondary liability for neutral intermediaries, such as telecommunications companies, which provided Internet access along with some ancillary services to their subscribers, including e-mail accounts and basic website-hosting platforms. Since then, a completely different class of hosting sites has emerged and proliferated, whose business models are centered around the anonymous sharing of overwhelming numbers of downloadable content files among millions of users. These sites, and the dramatic levels of infringement they commonly foster, were unlikely conceived of by Congress when Section 512 was negotiated and made into law.

Copyright owners simply cannot in an economically viable way detect, document, and send notices on all of the infringements which are being made available by these file-sharing services; as a result, a countless array of copyrighted works can easily be located and downloaded instantly in infringing form on the Internet by any user choosing not to pay for the authorized product made available legally by the rights holder. Notice-and-takedown has become an extremely expensive or cost-prohibitive task for many copyright owners, and yet it is at this stage largely ineffective in preventing the widespread, immediate availability of infringing materials through file-sharing services.

There is a critical need for amendments to the U.S. Copyright Act to promote more proactive antipiracy measures by file sharing sites than just responding to takedown notices from copyright holders. Requiring such measures as an additional condition of enjoying the DMCA's safe harbor protections against secondary liability may be appropriate. Aspects of the German system, and specific duty of care obligations identified in the decisions by that country's courts as discussed above, may be instructive as the issue is considered further here in the U.S. Additionally, identification technologies to prevent the distribution of infringing uploads have in recent years been implemented by a number of U.S.-based user-generated-content sites; these technologies and their effectiveness, along with any other emerging technical solutions or methods and opportunities to foster their development and adoption, should receive serious evaluation as well.

Endnotes

1. Digital Millennium Copyright Act, Pub. L. No. 105-304, 112 Stat. 2860 (1998).
2. *See* Jan Bernd Nordemann, *Liability for Copyright Infringements on the Internet: Host Providers (Content Providers)—The German Approach*, 2 JIPITEC 37 (2011); *see generally*, translation, Bundesgerichtshof [BGH] [Federal Court of Justice] Jul. 12, 2012, I ZR 18/11 (Ger.) (explaining that under German law, "a file-hosting service that makes storage space available on the Internet can be held liable as a 'provocateur'" ("disquieter") "if files infringing copyright are made" publicly "accessible by users of its service although it has already been provided with evidence of a clear infringement of rights beforehand") (on file with author).
3. Press Release, Sen. Orrin Hatch, International Anti-Piracy Caucus Unveils '2010 International Piracy Watch List' (May 19, 2010), http://www.hatch.senate.gov/public/index.cfm/releases?ID=b109414b-1b78-be3e-e0b8-34869d0477c4.
4. *See* Janko Roettgers, *German ASCAP Equivalent Wins Preliminary Injunction Against Rapidshare*, P2P Blog (Jan. 18, 2007), http://www.p2p-blog.com/item-231.html.
5. Translation, Landgericht Hamburg [Hamburg Regional Court] Jun. 12, 2009, 310 O 93/08 (Ger.) (on file with author).
6. Translation, Landgericht Hamburg [Hamburg Regional Court] Feb. 10, 2010, 310 O 53/10 (Ger.) (on file with author).
7. Translation, Oberlandesgericht Hamburg [OLG] [Higher Regional Court of Hamburg] Mar. 14, 2012, 5 U 41/11 (Ger.) (on file with author) (hereinafter "OLG").
8. *Id.* at 2.
9. *See* Gesetz uber Urheberrecht und verwandte Schutzrechte [UrhG] [Law on Copyright and Neighboring Rights], Sept. 9, 1965, [Federal Law Gazette] as amended, Dec. 17, 2012, Art. 19a [Right of Making Works Available to the Public] (Ger.), *translated in* JURIS.DE, http://www.gesetze-im-internet.de/englisch_urhg/index.html#gl_p0091.
10. OLG at 23.
11. Oberlandesgericht Hamburg [OLG] [Higher Regional Court of Hamburg] Jul. 2, 2008, 5 U 73/07 (Ger.) (hereinafter "*RapidShare I*").
12. OLG at 23 (citing *RapidShare I*).
13. *Id.* at 23-25.
14. *See* Gesetz uber Urheberrecht und verwandte Schutzrechte [UrhG] [Law on Copyright and Neighboring Rights], Sept. 9, 1965, [Federal Law Gazette] as amended, Jul. 16, 1998, art. 53 [Reproduction for Private and Other Personal Uses] (Ger.), *translated in* WIPO LEX (WIPO trans.).
15. OLG at 26.
16. *Id.* at 31.
17. *Id.* at 28-29.
18. *Id.* at 31.
19. *Id.* at 23.
20. *Id.* at 23, 61.
21. Case C-324/09, L'Oréal SA v. eBay International AG, 2011 E.C.R. I-06011.
22. *Id.*
23. OLG at 34.
24. *Id.* at 35.
25. *Id.*
26. *Id.* at 38, 42-44, 50.
27. *Id.* at 36.
28. *Id.* at 36-37 (citing Oberlandesgericht Hamburg [OLG] [Higher Regional Court of Hamburg] Mar. 14, 2012, 5 U 87/09 (Ger.)).
29. *Id.* at 37.
30. *Id.* at 40.
31. *Id.* at 38-39.
32. *Id.* at 39-40.
33. *Id.* at 40.
34. *Id.* at 41.
35. *Id.* at 41-42.
36. *Id.* at 41.
37. *Id.* at 41-42.
38. *Id.* at 37-38.
39. *Id.* at 42-43.
40. *Id.* at 43 (pointing out that under Part 1, Section 3, para. 3 of the German Telecommunications Act of 2004, *see generally*, Telekommunikationsgesetz, [TKG] [Telecommunications Act] Jul. 25, 1996 [Federal Law Gazette] as amended, Jun .22 2004 (Ger.), customer data is defined as data collected for the purpose of establishing, framing the contents of, modifying or terminating a contract for telecommunications; and that under Section 14, para 1 of the German Telemedia Act, *see generally*, Telemediengesetz [TMG] [Telemedia Act] Feb. 26, 2007 [Federal Law Gazette] (Ger.), telemedia service providers are permitted to collect and store customer data for the establishment, content or amendment of a contractual relationship with a recipient of the services).
41. OLG at 43.
42. *Id.* at 49-57.
43. *Id.* at 55, 57, 64.
44. *Id.* at 58.
45. Case C-324/09, L'Oréal SA v. eBay International AG, 2011 E.C.R. I-06011.
46. OLG at 58.
47. PS Newswire, *German Court Levies More Fines Against Rapidshare for Continued Violation of U.S. Publishers' Copyrights*, Bloomberg (Aug. 22, 2011), http://www.bloomberg.com/apps/news?pid=newsarchive&sid=a9kMWFcbKuRU.
48. OLG at 63.
49. *Id.* at 56-57.
50. Translation, Bundesgerichtshof [BGH] [Federal Court of Justice] Jul. 12, 2012, I ZR 18/11 (Ger.) (on file with author) (hereinafter "*Atari*").
51. Oberlandesgericht Düsseldorf [OLG] [Higher Regional Court of Düsseldorf] Mar. 22, 2010, I-20 U 166/09 (Ger.).; Oberlandesgericht

Düsseldorf [OLG] [Higher Regional Court of Düsseldorf] Jul. 6, 2010, I-20 U 08/10 (Ger.).

52. *See* AP story, *YouTube Ordered By German Court to Restrict Videos That Might Violate Copyright*, Huffington Post (April 20, 2012), http://www.huffingtonpost.com/2012/04/20/youtube-germany-copyright_n_1440767.html?view=print&comm_ref=false (court ordered proactive measures by YouTube following notification of infringement); *and* Andrew Losowsky, *Library.nu, Book Downloading Site, Targeted in Injunctions Requested By 17 Publishers*, Huffington Post (February 15, 2012), http://www.huffingtonpost.com/2012/02/15/librarynu-book-downloading-injunction_n_1280383.html?view=print&comm_ref=false (operators of the sites Library.nu and iFile.it held liable as abettors for aiding in infringement by users, and as direct infringers for re-uploading files to additional host sites, and ordered to cease and desist from further making plaintiff publishers' works available).

53. *Atari* at 1.

54. *Id.*

55. *Id.* at 8-10.

56. *Id.* at 11, 14.

57. *See* Gesetz uber Urheberrecht und verwandte Schutzrechte [UrhG] [Law on Copyright and Neighboring Rights], Sept. 9, 1965, [BGBI] as amended, Dec. 17, 2012, Art. 69d [Exceptions to the Restricted Acts] (Ger.), *translated in* JURIS.DE http://www.gesetze-im-internet.de/englisch_urhg/index.html#gl_p0091 .

58. *Atari* at 13-14.

59. Translation, Bundesgerichtshof [BGH] [Federal Court of Justice] Aug. 15, 2013, I ZR 79/12 (Ger.) (on file with author).

60. The Supreme Court repealed, however, the judgment of the appellate court against Christian Schmid and Bobby Chang (including the imposition of costs), instructing that further determinations needed to be made by the Court of Appeals as to whether these defendants themselves—in addition to the company as a whole—personally engaged in activity and had knowledge making them liable as indirect infringers) (*Id.* at 2, 18).

61. *Id.* at 16-17.

62. *Id.* at 17.

63. *See Viacom Int'l Inc. v. YouTube Inc.*, 676. F.3d 19, 42 (2d Cir. 2012); *UMG Recordings, Inc. v. Shelter Capital Partners LLC*, No. 09-55902 (9th Cir., March 14, 2013).

64. *Perfect 10, Inc. v. Rapidshare*, No. 09-CV-2596 (S.D. Cal. May 18, 2010).

65. Press Release, Rep. Bob Goodlatte, Chairman Goodlatte Announces Comprehensive Review of Copyright Law (Apr. 24, 2013) http://judiciary.house.gov/news/2013/04242013_2.html.

66. Pamela Samuelson, *The Copyright Principles Project: Directions for Reform*, 25 Berkeley Tech L. J. 2 (2010).

Ed McCoyd is an attorney and Executive Director for Digital, Environmental & Accessibility Affairs at the Association of American Publishers (AAP). He works with and advocates on behalf of educational, trade, and professional and scholarly publishing companies on issues involving digital technologies and publications, prevention of electronic piracy of publishers' products, provision of accessible formats of books and other materials to individuals with disabilities, and environmental impacts associated with book paper and manufacturing. Ed has lectured at CLE seminars including for the Copyright Society of the USA, the Practising Law Institute, and the Suffolk County Bar Association. Ed previously served as Director of Legal Services at the Authors Guild, providing licensing and copyright advice to published writers.

The law firm Lausen Rechtsanwälte (Munich, Germany) provided helpful support to the author's research.

Union/Guild Membership for the Creative Entertainment Industry Member—Sometimes, Getting What You Wish For…

By Diane Krausz

Most creative artists dream of recognition and success, which includes being part of esteemed groups of their peers. If they are also practical, they want access to a much higher level of employment, both in income and stature. Therefore, an actor wanting to work in taped entertainment seeks to gain admission to SAG-AFTRA.[1] An aspiring television writer or screenwriter (the former eventually moving up the television ranks to producer and executive producer) seeks admission to the Writers Guild of America (WGA). For live stage, the actors' union is Actors Equity (AEA), and the organization for the playwright is the Dramatists Guild. Film and television directors join the Directors Guild of America (DGA), and for live stage, The Stage Directors and Choreographers Society (SDC). Most of these entities are also labor unions that are permitted pursuant to Section 7 of the Federal National Labor Relations Act (NLRA) to organize members and negotiate collectively on their behalf with employers.

By becoming a member of a union, the creative actor or talent becomes eligible to work for producers who have negotiated with the union and reached an agreement as to the terms and conditions of the employment of the actors in connection with that specific project, or, in some cases, with a particular corporation or non-profit. Union or guild membership also provides an individual talent access to be part of the union's government and administration, to compete for awards produced internally (such as the SAG-AFTRA or WGA awards), educational and other career opportunities, and serves as objective evidence of their professional stature and skill. Unfortunately, gaining a threshold to entry is often the beginning of a new concern in an artist's life, one where the artist's loyalty to the union is tested against the need to work in one's profession. An entertainment attorney might consider the following issues when advising a client regarding union or guild membership.

1. What Are the Criteria to Join?

As an example, to join SAG-AFTRA, (other than for broadcasters, for which special rules apply):

a. The actor must be hired as a "principal" under a SAG-AFTRA contract, which is not specifically defined as more than at least a speaking role. When a non-union actor accepts a "principal" role, he or she automatically becomes "SAG-AFTRA eligible" and must join the union within 30 days. *If one does not join the union within 30 days, the actor can no longer accept any further SAG-AFTRA employment.* The union enforces this rule by "Station 12," which requires a producer who has signed with the union to verify an actor's status in each instance.

b. The actor can work for three (3) days as a "background performer" or non-speaking role under a SAG-AFTRA contract. In any SAG-AFTRA covered film or television program, there are always a few extra positions allocated and subject to union coverage and minimums and the rest are not. A non-union actor who gets a union covered "extra" position gets a "voucher." When this actor gets three vouchers from three separate days of employment, the actor can and must join the union.

c. The actor can be a member of "sister" union for at least a year and has worked as a principal performer within the sister union's jurisdiction. A sister union includes AEA , the Alliance of Canadian Cinema, Television and Radio Artist (ACTRA), The American Guild of Variety Artists (AGVA) and The American Guild of Musical Artists (AGMA), which is for Opera, Dance and Concert Musicians, respectively. Note that since AFTRA merged with SAG in late 2012, AFTRA is no longer a "sister union." Since AFTRA's prior threshold of entry for joining was not as stringent as SAG's, the AFTRA "open door" membership option is no longer available.[2]

Similar to SAG-AFTRA, membership in the other creative entertainment guilds or unions is often a hard one and long awaited achievement and each of these individual unions and guilds have their own requirements and thresholds to entry.[3]

2. Eligibility

Upon reaching eligibility to becoming a member, the questions then should be:

(a) Does the potential member live in a Right to Work state? *If so, the union cannot force anyone in a "right to work state" to become a member of the union simply to get work from an employer*.[4] California and New York are *not* Right to Work states; however, Nevada and Florida are.

(b) If the member *does not live* in a Right to Work state, like New York or California, of what issues should the potential union or guild member be aware prior to joining the union? Unless the member lives in a Right to Work state, by accepting full membership in a guild or union, an artist is unable to accept employment that is not approved or sanctioned by the guild or union. To do so would risk violation of his or her membership, as well as sanctions, dismissal and penalties, depending on the specific facts and circumstances. It is clear from the union rules that almost all full union members are not permitted to work for non-union employers.

3. Concept of Financial Core

In the real world, the majority of the 165,000 SAG-AFTRA members are not self-supporting from their union generated income alone. The same is the case of the membership of most other creative unions discussed in this article. Furthermore, the changing entertainment and media world and accompanying economic eruptions have continued to encourage both new companies and media, as well as existing large companies or their "subsidiaries" or affiliates, to elect not to sign collective bargaining agreements with unions. The unions continue to try diligently to organize members for collective bargaining. Yet even regularly employed actors, writers and directors, whether or not members of a guild or union, continue to require new projects and employment as part of the nature of their professions and the industry. As always, in the case of certain projects (especially independent films, prestigious cable or alternative (e.g., UTUBE, Netflix) financed programming, reality or historical television programming, or other budget-conscious but professional projects), there is an over-abundance of talented and willing professionals to work for less than union-approved wage and conditions.

One highly unpopular, controversial but Supreme Court-sanctioned option for a union member is for the individual to declare "Financial Core." Industry writers have commented that "FiCore" is obviously the one option about which unions do not want their members to find out. The concept was defined and conceived in the original case as when union "'membership' as a condition of employment is whittled down to its financial core."[5] In essence, the Supreme Court has, in multiple cases, held that the only thing a union can require of any worker is that he or she pays the union dues and initiation fees, and these fees are limited to the basic costs of running the union, not the politics, lobbying and union organizing activities The legal concept of financial core is that a member of a union may change his or her membership status from "full" to "financial core" and maintain a mere dues-paying association with a union. This change in membership, which the unions often refer to as a "resignation" or the member being a "scab," protects the member from discharge from the union under Section 8(a)(3) of the NLRA,[6] without subjecting him or her to the responsibilities and regulations of full membership.[7] The Supreme Court also found that Section 8(a)(3) does not obligate employees "to support union activities beyond those germane to collective bargaining, contract administration, and grievance adjustment,"[8] thereby limiting the amount of dues to less than paid by a full member.

Although it is fairly clear from a legal interpretation of the case law, the reality of going "FiCore" is not as straightforward. The unions most assuredly do not advertise the practice as readily available or as an appropriate solution for a union member who is struggling to make ends meet and unable to work on non-union projects. In fact, on the SAG-AFTRA website, the statements regarding FiCore can be interpreted as actively discouraging, if not frightening to those contemplating the process. The actual process is made to sound like a resignation, although it is clear that dues and fees must continue to be paid. The reinstatement process is also not delineated, and at least one attorney's recent inquiry about the process was rebuffed. She was specifically told that "FiCore" was a "strictly" member-union issue that "attorneys never get involved with." It is only through other non-union websites, the study of labor law, or through the experience of other members or agents[9] that someone wanting to learn or instruct a client to file for FiCore would be able to gain more balanced information. While understandable from a union's perspective, since FiCore can be viewed as eroding union collective bargaining power and organizational ability, an attorney must weigh his or her client's personal day-to-day needs against personal and political beliefs.

Endnotes

1. SAG-AFTRA, www.sagaftra.org (The Screen Actors Guild of America (SAG) and The Actors Federation of Television and Radio Artists (AFTRA) merged officially on March 30, 2012).
2. SAG-AFTRA, www.Sagaftra.org/content/paying-dues (Current SAG-AFTRA Dues: Initiation Fee: $3,000 (financing available), Annual Dues: $198 minimum plus 1.575% up to first $500,000 of gross salary).
3. For other union membership requirements, *see*, e.g.,Writers Guild of America East, www.wgaeast.org/index.php?id=5; Actors' Equity Association, http://www.actorsequity.org/membership/howtojoin.asp ; Stage Directors and Choreographers Society, http://www.sdcweb.org/member-services/apply-for-membership/; Directors Guild of America, http://www.dga.org/The-Guild/Departments/Membership/Joining-the-DGA.aspx; Dramatists Guild of America, https://www.dramatistsguild.com/join/index.aspx.
4. National Right to Work Legal Defense Foundation, Inc.,www.nrtw.org/rtws.htm (The current list of Right to Work States can be found at www.nrtw.org/rtws.htm).
5. Nat'l Labor Relations Bd. v. General Motors Corp., 373 U.S. 734, 742 (1963).
6. National Labor Relations Act, 29 U.S.C. §158 (a)(3) (2013).
7. Nat'l Labor Relations Bd. v. Local 54, Hotel Emps. & Rest. Emps. Int'l Union, AFL-CIO, 887 F.2d 28 (3d Cir. 1989).
8. Commc'ns Workers of Am. v. Beck, 487 U.S. 735, 745 (1988).
9. See, e.g., www.Ficore.com; www.nrtw.org; www.bizparentz.org/thebizness/unionfinancialcore.html; www.actorsequity.org/docs/news/en_09_2011.pdf ; http://www.huffingtonpost.com/michael-seitzman/what-ficore-really-means_b_79819.html.

For over 25 years, Diane Krausz, Esq., has represented individuals and entities in the entertainment industry, with an emphasis in theater, film, television, talent representation/negotiation, and intellectual property. Ms. Krausz has extensive experience protecting art through copyright; licensing, merchandising, and spokesperson deals; drafting and negotiating contracts and resolving disputes; purchase and sales of entertainment companies; and helping artists reach financial success. For further information, please see www.DianeKrausz.com.

TV 101
The Reality of Reality Show Participant Agreements
By Nima Daivari

The term "Reality Television" means so many things to so many people. It may invoke thoughts of shows like *American Idol, Survivor, Duck Dynasty, The First 48, The Real Housewives, Mythbusters,* and *Betty White's Off Their Rockers*. As seen from just that small sampling, reality shows can be extremely different from one another, and trying to find a one-size-fits-all definition simply does not work.

A better way to categorize television programming is scripted vs. unscripted. One could argue that, for instance, *Idol* and *Survivor* are not reality shows at all—they are game shows. They have rules, contestants, and a prize. As such, the overarching term "unscripted" is what will be addressed for the purposes of this article.

The participants are the glue that holds unscripted programming together. Without actors or actresses, the participants become the stars of the series. As such, it is imperative to make sure that a production company has all of the rights and releases needed in place. Since unscripted programming can refer to so many different types of shows, below is a list of some general considerations to make when drafting a participant agreement for an unscripted series.

Participants as Stars

The participants in an unscripted series are not portraying fictional characters or known talent, but they are the stars of the show. If one is building a show like, for example, *The Bachelor* or *RuPaul's Drag Race*, one has to view the participants not just as reality participants, but as television stars. A key issue with unscripted participants is making sure that they represent and warrant that they are who they allege to be. One of the most common representations the participant needs to make is that he or she is not playing a character. The participant agreement should have language along the lines of:

> I understand and agree that if selected to be a participant on the series, I shall appear as myself; my appearance shall not be a performance and does not constitute an employment relationship between me and the producer. I understand and agree that my appearance on the series does not constitute a performance within the parameters of any performing arts union or guild and under no circumstances will compensation be payable to me or on my behalf regardless of the results and proceeds of my appearance as exploited hereunder.

A provision such as the above eliminates three issues: Participants are appearing as themselves, there will not be any SAG-AFTRA or other union issues, and no employer-employee relationship is being established between the participants and the producer. Throughout this article, the word "producer" will be used in the loosest sense of the word, meaning the person(s)/entity responsible for the physical production of the unscripted series. When building a participant agreement, the network will certainly factor in heavily, but as this is *TV 101*, that additional wrinkle of network involvement will not be addressed.

The participants are not employees of the producer, but the producer is building a show around these people, and there are a slew of ancillary commitments that come with being featured on a television show, not the least of which are promotional appearances, merchandising, and talent holds.

Promotional appearances are a necessary part of television. The vast majority of unscripted series produce well below the average 18 to 24 episodes per season that a successful broadcast network show will produce. Since the series will be airing within a small window (around six to 13 episodes), the promotion and advertising is crucial. To promote the series the participants will not only appear in the series, but they will also need to be available to provide print interviews, satellite tours, red carpet appearances, television interviews, and print advertisements, to name a few. Imagine what would happen if one built a show around a participant who then refused to assist in promoting the series—it would be quite the challenge for the poor Marketing Department. As such, a production agreement needs to include a provision for promotional appearances. For example:

> For the period commencing as of my execution of this agreement and continuing through and including the date which is two (2) years after the initial broadcast of the final episode of the cycle of the series in which I appear, I agree to participate in the development, production, promotion, advertising, and marketing thereof and for any ancillary products relating to the series. Promotional services may include, but are not limited to, media tours,

> photography sessions, attending the Television Critics Association (TCA) press tour, lead-ins, lead-outs, teasers, promos, online chat sessions, tweeting, and other customary services as requested by producer. Ancillary products may include, but are not limited to, books, series soundtracks, and other merchandise.

With regard to such products, a producer will also need the right to use the participant in not just series related merchandise, but any additional product(s) with which the show is partnered:

> I hereby grant to producer the irrevocable right to use and / or license my name, sobriquet, likeness, photograph, voice, caricature, and biographical material in connection with the series and the sale of any goods and / or services, irrespective of whether they are for producer or a third party. Such products may include, without limitation, books, magazines, tours, electronic sell throughs, home video products, and products of sponsors, advertisers, and integrations partners.

Such language not only protects the series, but also sponsors and integration partners of the series as well, such as Coke on *American Idol*, or Snapple on *America's Got Talent*.

The final issue addressed under this section is talent holds. There is a constantly growing list of celebrities who all started out as unscripted television participants, but have managed to parlay being a participant on an unscripted series into a multi-million dollar empire. Celebrities such as Lauren Conrad (*Laguna Beach*), Elisabeth Hasselbeck (*Survivor*), Snooki (*The Jersey Shore*), The Miz (*The Real World*), Bethenny Frankel (*The Apprentice: Martha Stewart*, *The Real Housewives of New York City*, *Bethenny Getting Married?* And *Bethenny Ever After*), Kim Kardashian (*Keeping Up With The Kardashians*), Kelly Clarkson (*American Idol*), and Travis Stork (*The Bachelor*) most likely had talent holds built into their participant agreements so that the producers could build upon the fame that arose from their appearances on the original unscripted series.

The above are just some of the examples as to why talent holds are so important. If one has a breakout star, it is important to make sure that the producer has the right to continue building that star's success:

> For the period commencing as of my execution of this agreement and continuing through and including the date which is two (2) years after the initial broadcast of the final episode of the cycle of the series in which I appear, I hereby grant producer an option to engage my services as a performer, exercisable upon written notice to me accompanied by the payment of $xxxx.

Upon exercising the above mentioned talent hold, a producer would enter into a new talent agreement with the participant and the Development Department will figure out how to best further develop the participant. Carrie Underwood (*American Idol*), Bill Rancic (*The Apprentice*), and Kim Zolzniak (*The Real Housewives of Atlanta*) were all developed in very different ways. Luckily, that is not something Legal needs to worry about—the creatives at the company further develop talent.

Relaxing At Home

Many unscripted series feature a group of participants who are living together. *The Real World*, *Big Brother*, and *Project Runway* are examples of three very different such series. Some considerations to make when drafting an agreement for this type of series are the very issues arise from living with strangers, hidden cameras, and dealing with health issues:

> If I am selected to participate in the series, I may live with other participants. I understand that producer, in its sole discretion, may make limited information about other participants available to me but has no obligation to do so whatsoever. This includes any physical, medical, mental, or criminal investigations producer may conduct on participants of the series. In the event I decide to have intimate physical contact with someone I meet on the series I agree to disclose any adverse information concerning my health (for example, communicable or sexually transmitted diseases, etc.) prior to engaging in such contact and I grant producer the right, but not the obligation, to disclose any such information about me to other participants in producer's sole discretion. If I voluntarily choose to engage in intimate physical contact with another participant it will be of my own free will and not under any duress from producer or other parties. I assume any and all risks associated with any such relationship including emotional distress, STDs, HIV, and / or pregnancy.

The grave repercussions that could stem from intimate physical contact between participants are not to be taken lightly. Television shows rarely bounce back from that kind of scandal, not to mention the legal and moral implications that could stem from a worst-case scenario.

Protecting the participants of a series is paramount to any production, and making participants aware of any dangers is imperative (as is doing one's due diligence with respect to the participants).

A second prevalent issue that stems from having participants live together is one of secretive recordings. Many shows feature a house that has cameras and microphones strategically placed throughout. Secret recordings can run afoul of both privacy rights as well as wiretapping laws. In the United States, wiretapping laws are broken into two major groups—one-party consent states and all-party consent states. One-party states require that one of the people being recorded consents to the recording, whereas all-party states require all parties to a recording consent to being recorded:

> I understand and agree that I may be recorded at any and all times in connection with the series. All rooms in the house may be outfitted with visible and possibly invisible cameras and microphones. My actions and conversations may be recorded at any and all times in connection with the series and may be recorded up to twenty-four (24) hours per day for national and / or international broadcast, including on the Internet. I understand and agree that I will have limited privacy (if any) and hereby waive any restriction of my privacy rights irrespective of whether or not I am aware I am being recorded. I understand I am free to leave the house at any time without the prior consent of producer but that in doing so I may be subject to dismissal from the series.

The last line in the above is an effort to thwart any kidnapping or unlawful restraint claims—something that is absolutely necessary to prevent the participants from mistakenly believing they are unable to leave the house.

We'll Fix It in Post

A running joke in film and television production is the saying "We'll fix in it post," which means any issues that occur while filming will be edited around or cut out entirely during the post-production editing phase of the series once shooting with the participants has wrapped. However, the reality is that not everything is fixable in post. That is why the below language Is so important:

> I understand that my interviews and / or appearances on the series may include statements by me, producer, other individuals, the viewing audience, or others (including, without limitation, coaches, personal trainers, experts, therapists, counselors, doctors and referral services) which may be considered surprising, humiliating, embarrassing, derogatory, defamatory, or otherwise unfavorable and in a nature which may be offensive or injurious to me, the viewing audience, producer, and / or other third parties. Irrespective of whether or not such statements are factual or fictional, any such statements and any injuries allegedly caused thereby are hereby specifically included within the matters released and indemnified against herein and I fully assume all risk associated therewith.

In the event a statement is "published" (airing an episode is considered publication for defamation claims in connection with television), one needs the above language to protect the series from emotional distress and defamation claims. However, there are many shows that take place in front of a live audience, so fixing it in post production may not be sufficient if the statement was made in front of hundreds, or even thousands, of live audience members. As such, one certainly needs a release like the above in order to protect the series and statements made in connection therewith.

Bad Things Happen to Good People

A series can be well-established and take every safety precaution under the sun, but at the end of the day, sometimes bad things happen that are not anybody's fault. Shain Gandee (*Buckwild*), Phil Harris (*Deadliest Catch*), Gerald Babin (*Koh-Lanta*), Ryan Dunn (*Jackass*), and Megan Hauserman (*Megan Wants a Millionaire*) are a few examples of participants who passed away for various reasons that may or may not be attributed to their appearances on their respective series. Language like the below can mitigate some of the risk associated with production:

> I authorize producer to conduct physical, psychological, criminal, and background investigations of me and / or other participants. I understand and agree that producer makes no representations or assurances whatsoever as to the background, mental or physical condition, or criminal history of any participants in the series and I assume the risk for any activities I participate in and for any interaction with any other participants in connection with the series.

Most series do a thorough job of investigating all participants, but unfortunately medical conditions can go undetected for years, individuals with no criminal history can engage in criminal behavior, and substance abuse can often go undetected.

In the unlikely event that something does go wrong, the below language is necessary both preventatively as well as curatively:

> I understand and agree that any physical or mental assistance or examinations I receive in connection with the series shall not create a confidential relationship between me and any medical provider. I acknowledge and agree that any such medical information obtained may be shared with producer. I waive any provider-patient privilege I may have or that may arise and agree to the release of any records in connection therewith. I hereby authorize producer to arrange for or provide medical assistance to me as producer deems necessary. I also authorize any physician or other medical provider or facility to provide any medical or surgical care determined to be medically necessary, including, without limitation, application of anesthesia, surgical care, or hospitalization.

A brief column like this certainly cannot address the litany of issues that arise in the production of an unscripted television series. In fact, it is not even close as some participant agreements can be upwards of 50 pages long. Hopefully, however, this may be used as a jumping off point in discussions revolving around the needs of a specific production.

The language provisions and language in this column are for informational and educational purposes only and do not constitute legal advice.

Nima Daivari is Counsel, Business and Legal Affairs for ITV Studios. Prior to ITV Nima was Counsel, Business and Legal Affairs at Telepictures, the syndicated television division of Warner Bros. and he began his legal career at the Emmy-award winning production company MRB Productions. Nima has a B.A. in Film from USC, his J.D. from New York Law School and is licensed to practice law in both New York and California.

Krell's Korner

Krell's Korner is a column about the people, events, and deals that shape the entertainment, arts, and sports industries.

I Know Nothing!: *Stalag 17*, *Hogan's Heroes*, and Copyright Infringement

By David Krell

When Donald Bevan and Edmund Trzcinski saw *Hogan's Heroes* for the first time, it looked familiar. Strangely familiar.

Bevan and Trzcinski authored the play *Stalag 17*. On May 8, 1951, it debuted at the 48th Street Theatre.

Stalag 17 is a World War II mystery that takes place on December 23rd to 24th, 1944 at a German Prisoner of War camp. One barracks, in particular, provides the source of the action. Herman Hoffman, the barrack's leader, conspires with his fellow prisoners to commit subterfuge against the Germans—including planning prisoner escapes. When the play opens, the audience learns that the latest escape attempt was for naught. Two prisoners, Johnson and Manfredi, walked right into a blaze of gunfire by the German prison guards.

This latest setback deflates the Allied prisoners. Realizing that an informer is the likely source for the Germans' thwarting every subversive act, the prisoners point to one of their own—a wheeler-dealer type named Sefton, who is the prototypical loner with a dog-eat-dog view. He does not go out of his way to offend the other prisoners, but he does not go out of his way to bond with them, either. Sefton also seems to be chummy with the guards, trading with them for goods unavailable to other prisoners.

Sefton discovers that Price, the security chief for the barracks, is the real German agent. After he reveals Price as the spy, Hoffman agrees to let Sefton escape with Dunbar, a rich Boston blueblood with a war record that would make Audie Murphy bow in deference. Earlier in the play, Dunbar was interrogated by the Germans, whose efforts were for naught, as Dunbar's internal strength proved as strong as his bank book.

Sefton and Dunbar need a decoy, though. The prisoners use Price. They throw him into the compound where he draws attention from the guards. Unaware of Price's true identity, they shoot him because they think he's just another prisoner trying to escape.

Bevan and Trzcinski had credentials affirmed in bedrock to write *Stalag 17*. They were in the real Stalag 17B prison camp in Austria. In 1953, their play became a movie starring William Holden, Peter Graves, Harvey Lembeck, Robert Strauss, Gil Stratton, and Otto Preminger.

About 10 years later, Bernard Fein and Albert S. Ruddy created *Hogan's Heroes*. Produced by Bing Crosby Productions (BCP) and broadcast on CBS from 1965 to 1971, *Hogan's Heroes* starred Bob Crane, Robert Clary, John Banner, Richard Dawson, Ivan Dixon, Werner Klemperer, and Larry Hovis. With a comedic premise, *Hogan's Heroes* featured the antics of a group of soldiers in Stalag 13—three Americans, an Englishman, and a Frenchman. They ran a sophisticated operation complete with escape tunnels, radio hookups to Allied forces, and uniforms for impersonating German soldiers. They thwarted Nazi military plans, fostered escapes of prisoners, and outsmarted the Gestapo at every turn. Colonel Robert Hogan led the soldiers, hence the title *Hogan's Heroes*.

Brenda Scott Royce wrote, "The comedy of *Hogan's Heroes* rose not out of the setting, but out of the characters—a bunch of guys outwitting authority. It was a familiar formula in a setting that was unfamiliar to most TV viewers and therefore caused a great deal of uneasiness."[1]

Bevan and Trzcinski sued CBS and the producers and sponsors of *Hogan's Heroes* for injunctive relief and damages resulting from alleged infringement of their copyright to *Stalag 17* and common law relief for alleged infringement of unpublished presentations. They asked for a jury trial, a legitimate request "to which they were entitled since the complaint sought both legal and equitable relief."[2]

An eight day trial between April 26, 1971 and May 6, 1971 resulted in a verdict for Bevan and Trzcinski on statutory and common law claims. The defendants moved for a directed verdict and a judgment notwithstanding the verdict and made their arguments to the District Court of New York on May 21, 1971.[3]

The court isolated three issues in the defendants' motions:

1. Did the evidence support the jury's verdict concerning the *Stalag 17* copyright infringement claim?
2. Did the evidence support the jury's verdict concerning the unpublished presentation?
3. Did the plaintiffs have standing as they assigned "motion picture rights" for *Stalag 17* to Paramount Pictures?[4]

Bevan and Trzcinski used the play and film versions of *Stalag 17* as a springboard to the television industry. "Sometime in 1963, plaintiffs began work on a television series and prepared the presentation (plaintiffs' Exhibit 17) entitled Stalag 17. This presentation, which consists of a thematic outline of the proposed series, description of the characters, six brief narrative sketches and four story ideas was submitted to approximately one hundred firms or their representatives, including CBS President James Aubrey at his New York office on July 1, 1964."[5]

CBS responded to Bevan and Trzcinski with a letter "expressing some interest in the ideas but indicating that CBS had no present or contemplated use therefor. That letter does not indicate whether the presentation was returned to plaintiffs, and no evidence as to its destiny within the CBS establishment was presented."[6]

Fein and Ruddy approached CBS' west coast division in mid-October 1964 with their *Hogan's Heroes* pilot—*The Informer*. BCP saw an opportunity when it learned of CBS' interest, bought the rights from Fein and Ruddy, and hired experienced writers Edward Feldman and Richard Powell. Feldman and Powell "made substantial changes in the story line and characters of the pilot. Finally, in late-December, 1964, a revised draft of *The Informer* was submitted to CBS and approved."[7]

Hogan's Heroes premiered on September 17, 1965 with *The Informer* as the debut episode.

The Lawsuit

A plaintiff alleging copyright infringement must prove a substantial similarity between the copyrighted work and the alleged infringing work. Access to the copyrighted work is a common argument used to prove copying.[8] "To establish access, a plaintiff need show no more than that defendant had a reasonable opportunity to view or read plaintiff's work."[9]

Stalag 17 was a popular Broadway play. It ran from May 8, 1951 to June 21, 1952 for 472 performances.[10] For his portrayal of Sefton in the 1953 movie *Stalag 17*, William Holden won the Academy Award for Best Actor. The court reasoned that the fame of the movie and the play "was sufficient to support the jury's apparent finding that persons involved in the production of Hogan's Heroes had knowledge of the copyrighted work, and the jury was entitled to disbelieve their denials."[11]

The court examined the plaintiffs' argument about the similarities between *Stalag 17* and *Hogan's Heroes*, including the setting of a POW camp in Germany during World War II, the existence of comedic and dramatic moments, a prison guard named Schultz and a threat to export him to serve on the Russian front, Sefton and Hogan as counterparts, minor characters with counterparts, discovery of German informers, and sabotage.[12]

Copyright infringement analysis demands an aesthetic basis. The court relied on this basis for its finding of "substantial dissimilarity" when comparing "the dramatic mood, the details and interplay of the characters, and the dynamic of events."[13] The court began its analysis with the stories' dramatic mood.

"Passing for the moment the similarities incident to the POW camp setting, I find a striking difference in the dramatic mood of the two works. Contrary to plaintiffs' assertions, *Hogan's Heroes* is virtually empty of the grim, heroic content predominant in *Stalag 17*. The *Hogan*'s series is unabashed slapstick; the suspense created revolves around *how* the prisoners will succeed in outwitting the Germans, and not *whether* they will do so and survive, as in the play. Although there are comic interludes in *Stalag 17*, they serve only to heighten and relieve the grim and desperate themes."[14]

The court then analyzed the Schultz characters in the stories. "*Stalag 17*'s Sergeant Schultz is a coarse, threatening figure; his joviality is but a thin cloak for his serious activities as guard and informant; his presence is viewed with trepidation by the prisoners. Quite the contrary, the joviality of *Hogan*'s Schultz bears witness to his ineptitude; he witlessly and merrily aids the prisoners while scrupulously refraining from informing his superiors of the extensive intelligence and sabotage activities of Colonel Hogan's band."[15]

Indeed, Schultz uttered "I know nothing!" when he caught even a hint of Hogan's operations. "I know nothing!" became a popular culture catch phrase instantly identifiable with Schultz.

Further analysis revealed little, if any, similarity between the characters of *Stalag 17* and *Hogan's Heroes*, including the lead characters of Sefton and Hogan, respectively. "In short, the characters and their interplay in *Hogan*'s are, if anything, the inverse of *Stalag*'s. These are not just the minor, deliberate changes of a plagiarist, but flow from and result in an entirely different artistic conceptualization and portrayal of the POW camp situation."[16]

The obvious nexus between *Stalag 17* and *Hogan's Heroes* is a POW camp setting in Nazi Germany during World War II. This connection did not survive the court's scrutiny either. "The physical and dramatic accoutrements they share are stock items, characteristic of the POW camp genre of literature. Moreover, the dramatization or 'expression' of these public domain components in the works is in almost diametric opposition."[17]

Consequently, the court set aside the jury's verdict of copyright infringement concerning the play *Stalag 17*. It ruled differently on the issue of copyright infringement of Bevan and Trzcinski's unpublished presentation for CBS. "Admitting that decision on this motion is a close one, I cannot conclude that plaintiffs failed to provide the jury with sufficient evidence upon which to find infringement by a preponderance of the evidence."[18]

The court found "general tonal, role and thematic similarities" between the Bevan and Trzcinski presentation and *Hogan's Heroes*. It also highlighted specific incidents or scenes that reflected a similarity, if not a parallel, between both works. "While none of these similarities are so striking as to preclude the possibility of independent creation, they are sufficiently substantial to support the jury verdict."[19]

The court found that Bevan and Trzcinksi proved access because CBS received Bevan and Trzcinski's submission before receiving Fein and Ruddy's. Thus, receipt of a manuscript at defendants' principal corporate office has been held sufficient to raise a triable issue, despite plaintiff's inability to show receipt by the responsible employee."[20]

The court concluded that the jury had "sufficient evidence" for its verdict of common law infringement and breach of implied contract against CBS and BCP. "CBS was in possession of the presentation and played an active role in the creation and production of the Hogan's series. Knowledge by BCP—apparently the principal creator of the series—of the contents of the presentation, may be inferred from Aubrey's putative possession and involvement with BCP personnel at the pre-production stage."[21]

The court absolved the sponsors of *Hogan's Heroes* of liability—General Foods and Phillip Morris—for three reasons. First, although the sponsors were entitled to advance notice of the scripts for the opportunity to request changes, no evidence suggested that they exercised their rights, at least not to a level regarding the infringement claim. Second, the sponsors did not package *Hogan's Heroes*. CBS packaged it and offered sponsors the opportunity to purchase advertising time during the broadcasts. Third, the unpublished work status means "there is no basis for inferring that the sponsors would or should have known of any illegality."[22] The court pointed out that dismissing the claim has "little import" on a practical level because "CBS contracted to indemnify the two sponsors against liability of this kind."[23]

Bevan and Trzcinski's presentation did not fall under the umbrella of rights granted to Paramount Pictures. The court viewed it as a separate work from the play *Stalag 17*, rather than a version of it. "Therefore, the presentation—at least the ideas and story lines therein contained upon which the verdict of infringement is founded—is not embraced within even the broadest definition of the bundle of rights which plaintiffs may have conveyed to Paramount. Thus, plaintiffs' standing in respect to the property infringed by defendants is not affected by this affirmative defense."[24]

Hogan's Heroes engaged in a bit of cross-branding courtesy of Bing Crosby. When Crosby hosted an episode of *The Hollywood Palace* broadcast on ABC on Christmas Day 1965, he featured the cast members.

In the show's opening sketch, the cast members appear in their respective characters. As the prisoners banter with Crosby, Bob Crane explains, "Hey fellas, I got news for you. This is the boss. This is the man that owns our show. Bing Crosby."[25] Later in the program, Werner Klemperer and John Banner sing *Silent Night* in German, Robert Clary sings *A French Christmas Carol*, and the entire *Hogan's Heroes* cast joins Fred Waring and the Pennsylvanians, Dorothy Collins, and Bing Crosby to close out the show with *We Wish You the Merriest*.[26]

As Colonel Klink would say, "Disssssssmissed!"

Endnotes

1. Brenda Scott Royce, Hogan's Heroes: Behind the Scenes at Stalag 13! xii (1998).
2. Bevan v. Columbia Broad. Sys., Inc., 329 F. Supp. 601, 602 (S.D.N.Y. 1971).
3. *Id.* at 602-03.
4. *Id.* at 603.
5. *Id.*
6. *Id.*
7. *Id.*
8. *Id.* at 604.
9. *Id.*
10. *Stalag 17*, Internet Broadway Database, http://ibdb.com/production.php?id=1944.
11. Bevan, 329 F. Supp. at 604.
12. *Id.* at 605.
13. *Id.*
14. *Id* at 605-06 (emphasis added).
15. *Id.* at 606 (The original script for the *Stalag 17* play spells the character's name as Shultz).
16. *Id.*
17. *Id.*
18. *Id.* at 608.
19. *Id.* at 609.
20. *Id.*
21. *Id.* at 610.
22. *Id.* at 611.
23. *Id.*
24. *Id.*
25. *Hollywood Palace: Episode #3.13* (ABC television broadcast Dec. 25, 1965) *available at* http://www.youtube.com/watch?v=WexLDsdOGwY.
26. *Hollywood Palace: Episode #3.13* (ABC television broadcast Dec. 25, 1965) (for more information: http://www.imdb.com/title/tt0603021/).

David Krell is the baseball historian for the web site TheSportsPost.com. He is also writing a book about the Brooklyn Dodgers. It will be published in 2015 by McFarland. David is also the Co-Editor of the NYSBA's sports law book *In the Arena* and authored the chapter about mascots. David is a member of the bar in New York, New Jersey, and Pennsylvania. He blogs about popular culture history at his web site—www.davidkrell.com.

The Entertainment, Arts and Sports Law Section Welcomes New Members

Paul G. Anderson
Samantha Anderson
Camille Anidi
Kamilla Aslanova
Stephanie Candace Baker
Alexander E. Barnett
Raphael John Basso
Alison Bensimon
Anthony Bisignano
Laura Vera Julie Blondel
John Alexander Bowen
Eric Louis Brown
Elizardi Castro
Michael Cataliotti
David Louis Cohen
Nicole Compas
Margaret A. Dale
Lauren B. Davis
Julian Dayal
Matteo De Cesco
Nicholas DeLisa
Alexander N. Dergarabedian
Jonathan L. Dolgen
Michael B. Downing
MaryLynne Drexler
Cecilia Ehresman
Robert Anthony Evans
Daniella Fischetti
Stevie Fitzgerald
Andrea L. Flink
Stanley Chang Woon Foo
Carla Framil-Ferran
Jessica Lauren Frey
Michael Furlano
Eric Howard Geffner
Frank Giglio
Sonja G. Gonzalez
Zachary J. Gotlib
Ashley Erica Gravley
Jasmine F. Grays
Joseph Robert Gregory
Sylvia Elizabeth Groden
Kristoff Efren Grospe
David Haffner
Angel Hall
William John Helmer
Joceline Herman
Andrew M. Herzig
Shlomo Himmel
Ashley Elizabeth Horton
Michelle Rose Hull
Jamell Isidor
Yoon Joeng Jang
Taylor Lloyd Jones
Audrey Cirong Kang
Vanessa Kaster
John Wesley Pohai Kealoha Kelly
Mitchell S. Kessler
Scott Kestenbaum
Laura Lagone
Benjamin David Landry
Jared R. Leibowitz
Tyler D. Lenane
Mark Lesorgen
Evan Andrew Levane
Richard Liebowitz
John D. Logigian
Yekaterina Lomako
Zachary C. Lyon
Lauren M. Mack
John V. Maltbie
Robert Philip Manetta
Gideon Martin
Amanda Matossian
Vidal Carlos Maurrasse
Edward M. McCoyd
Thomas W. Michael
Matthew Evan Mirett
Vlada Monaenkova
Alaister Moughan
Stephen Richard Shaheen Nale
Sapna Bhupendra Patel
Nathan B. Perry
Omar Elfadl Ali James Pringle
Christopher M. Psihoules
Mathew B. Rabin
Ambika Raghunandan
Nicoletta Ranieri
Galen Ashton Reeves-Darby
Oriana Jane Robertson
Michael W. Rosen
Peter D. Rosenthal
Howard Michael Rudolph
Joseph Sacco
Owolabi M. Salis
Gaudys Sanclemente
Candy Santana
A. Cassidy Sehgal-Kolbet
Marilyn (Moriah) Tebor Shaw
Jay P. Sheryll
Adam Benjamin Silverman
Daniel John Simonetti
David A. Smith
Benjamin David Spira
Alexander Joseph Steinberg
Russell Howard Stern
Marli Sussman
Karen Wolfgang Swanson
Danielle-Ann Thomas
Lionel Thomas
Wilber Trivino
Ashley M. Van Hoff
Jaclyn Marie Venezia
Allison Beth Wadness
Damon Wallace
Michael Robert Williams
Stephen Todd Wishner
Amy Ilana Wolf
Robert W. Wolper
Kazuhide Yamanouchi
Alexander S. Yellen

Section Committees and Chairpersons

The Entertainment, Arts and Sports Law Section encourages members to participate in its programs and to contact the Section Officers or the Committee Chairs or Co-Chairs for further information.

Alternative Dispute Resolution
Jason Aylesworth
Sendroff & Baruch, LLP
1500 Broadway, Ste. 2201
New York, NY 10036
jaylesworth@sendroffbaruch.com

Judith B. Prowda
Sotheby's Institute of Art
570 Lexington Avenue
New York, NY 10022
judith.prowda@gmail.com

Copyright and Trademark
John Britton Payne
payne.britton@gmail.com

Jay Kogan
DC Comics
1700 Broadway
New York, NY 10019
jay.kogan@dcentertainment.com

Digital Media
Jason Aylesworth
Sendroff & Baruch, LLP
1500 Broadway, Ste. 2201
New York, NY 10036
jaylesworth@sendroffbaruch.com

Andrew Howard Seiden
Curtis, Mallet-Prevost, Colt
& Mosle LLP
101 Park Avenue, Ste. 3500
New York, NY 10178-0061
aseiden@curtis.com

Diversity
Cheryl L. Davis
Menaker & Herrmann LLP
10 East 40th Street, 43rd Fl.
New York, NY 10016
cdavis@mhjur.com

Anne S. Atkinson
Pryor Cashman LLP
7 Times Square
New York, NY 10036-6569
aatkinson@pryorcashman.com

Ethics
Pery D. Krinsky
Krinsky, PLLC
160 Broadway, Ste. 603
New York, NY 10038
pkrinsky@krinskypllc.com

Fashion Law
Lisa Marie Willis
Cowan, Liebowitz & Latman, P.C.
Kilpatrick Townsend & Stockton LLP
1114 Avenue of the Americas
New York, NY 10036
lmw@cll.com

David H. Faux
Law Office of David H. Faux
255 West 36th Street, Ste. 800
New York, NY 10018
davefaux@dhf-law.net

Fine Arts
Judith B. Prowda
Sotheby's Institute of Art
570 Lexington Avenue
New York, NY 10022
judith.prowda@gmail.com

International
Eric Jon Stenshoel
Curtis, Mallet-Prevost, Colt
& Mosle LLP
101 Park Avenue
New York, NY 10178-0061
estenshoel@curtis.com

Brian D. Wynn
Gardiner Roberts LLP
40 King Street, West, Ste. 3100
Toronto, ON M5H 3Y2
CANADA
bwynn@gardiner-roberts.com

Law Student Liaisons
Jason Aylesworth
Sendroff & Baruch, LLP
1500 Broadway, Ste. 2201
New York, NY 10036
jaylesworth@sendroffbaruch.com

Hannah Carmel
71 Fairlawn Drive
Hannah Carmel
240 Mercer Street
New York, NY 10012
hannah-carmel@tourolaw.edu

David S. Fogel
26 Chatham Rd.
Stamford, CT 06903
david.fogel@law.cardozo.yu.edu

Legislation
Steven H. Richman
Board of Elections, City of New York
32 Broadway, 7th Fl.
New York, NY 10004-1609
srichman@boe.nyc.ny.us

Literary Works and Related Rights
Kenneth N. Swezey
Cowan, DeBaets, Abrahams
& Sheppard LLP
41 Madison Avenue, 34th Fl.
New York, NY 10010
kswezey@cdas.com

Judith B. Bass
Law Offices of Judith B. Bass
1325 Avenue of the Americas, 27th Fl.
New York, NY 10019
jbb@jbbasslaw.com

Litigation
Stanley Pierre-Louis
Viacom Inc.
Intellectual Property & Content
Protect.
1515 Broadway
New York, NY 10036
stanley.pierre-louis@viacom.com

Paul V. LiCalsi
Mitchell Silberberg & Knupp LLP
12 East 49th Street, 30th Fl.
New York, NY 10017
pvl@msk.com

Membership
Joyce Sydnee Dollinger
Dollinger, Fonski and Grossman
1 Old Country Road, Ste. 102
Carle Place, NY 11514
jdollinger@dgglawoffices.com

Robert Louis Thony
605 E. 38th Street
Brooklyn, NY 11203-5612
robert.thony1@gmail.com

Motion Pictures
Mary Ann Zimmer
Law Office of Mary Ann Zimmer
401 East 74th Street
New York, NY 10021
mazimmer74@aol.com

Stephen B. Rodner
Pryor Cashman LLP
7 Times Square
New York, NY 10036-6569
srodner@pryorcashman.com

Music and Recording Industry
Christine A. Pepe
American Society of Composers
Authors and Publishers
One Lincoln Plaza, 6th Fl.
New York, NY 10023
cpepe@ascap.com

Keenan R. Popwell
SESAC
152 W 57th St., 57th Fl.
New York, NY 10019
kpopwell@sesac.com

Phil Cowan Memorial Scholarship
Judith A. Bresler
Withers Bergman LLP
430 Park Avenue, 9th Fl.
New York, NY 10022
judith.bresler@withers.us.com

Barbara Jaffe
Supreme Court of the State of New York
60 Centre Street
New York, NY 10013-4306
bjaffe@courts.state.ny.us

Richard A. Garza
Broadcast Music, Inc. (BMI)
250 Greenwich Street
7 World Trade Center
New York, NY 10019
rgarza@bmi.com

Pro Bono Steering
Kathy Kim
48 East End Avenue
New York, NY 10028-7976
KathyKim2007@gmail.com

Elissa D. Hecker
Law Office of Elissa D. Hecker
64 Butterwood Lane East
Irvington, NY 10533
eheckeresq@eheckeresq.com

Carol J. Steinberg
Law Firm of Carol J. Steinberg
74 E. 7th St., 3rd Fl.
New York, NY 10003
elizabethcjs@gmail.com

Irina Tarsis
1115 Prospect Avenue
Brooklyn, NY 11218-1152
tarsis@gmail.com

Publications
Elissa D. Hecker
Law Office of Elissa D. Hecker
64 Butterwood Lane East
Irvington, NY 10533
eheckeresq@eheckeresq.com

Publicity, Privacy and Media
Barry Werbin
Herrick Feinstein LLP
2 Park Avenue
New York, NY 10016-5603
bwerbin@herrick.com

Edward H. Rosenthal
Frankfurt Kurnit Klein & Selz, P.C.
488 Madison Avenue, 10th Fl.
New York, NY 10022-5702
erosenthal@fkks.com

Sports
Kathleen J. Wu
Andrews Kurth LLP
1717 Main Street, Ste. 3700
Dallas, TX 75201
kwu@akllp.com

Ayala Deutsch
NBA Properties Inc.
645 Fifth Avenue, 16th Fl.
New York, NY 10022
adeutsch@nba.com

Television and Radio
Pamela Cathlyn Jones
Law Offices of Pamela Jones
P.O. Box 222
Fairfield, CT 06824
pamelajonesesq@aol.com

Barry Skidelsky
185 East 85th Street, 23d
New York, NY 10028
bskidelsky@mindspring.com

Theatre and Performing Arts
Diane F. Krausz
D. Krausz & Associates,
Attorneys At Law
33 West 19th St., 4th Fl.
New York, NY 10011
DKrausz@dianekrausz.com

Jason P. Baruch
Sendroff & Baruch, LLP
1500 Broadway, Ste.2201
New York, NY 10036-4052
jbaruch@sendroffbaruch.com

Website
Jennifer Meredith Liebman
New York State Division
of Human Rights
1 Fordham Plz., 4th Fl.
Bronx, NY 10458-5871
jennifermliebman@gmail.com

Young Entertainment Lawyers
Ethan Bordman
244 Godwin Avenue
Ridgewood, NJ 07450
ethan@ethanbordman.com

Ezgi Kaya
110 Horatio Street
New York, NY 10014
ezgivkaya@gmail.com

Kibum Kim
57 Thames Street
Brooklyn, NY 11237
kim.kibum@gmail.com

Publication of Articles

The *Journal* welcomes the submission of articles of timely interest to members of the Section. Articles should be submitted with biographical information via e-mail in Microsoft Word format. Please submit articles to:

Elissa D. Hecker
Editor, *EASL Journal*
eheckeresq@eheckeresq.com

This *Journal* is published three times a year for members of the Entertainment, Arts and Sports Law Section of the New York State Bar Association. Members of the Section receive the *Journal* without charge. The views expressed in articles published in this *Journal* represent those of the authors only, and not necessarily the views of the Editor, the Entertainment, Arts and Sports Law Section or the New York State Bar Association.

We reserve the right to reject any advertisement. The New York State Bar Association is not responsible for typographical or other errors in advertisements.

Accommodations for Persons with Disabilities:
NYSBA welcomes participation by individuals with disabilities. NYSBA is committed to complying with all applicable laws that prohibit discrimination against individuals on the basis of disability in the full and equal enjoyment of its goods, services, programs, activities, facilities, privileges, advantages, or accommodations. To request auxiliary aids or services or if you have any questions regarding accessibility, please contact the Bar Center at (518) 463-3200.

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

Entertainment, Arts and Sports Law Journal

Editor
Elissa D. Hecker
Law Office of Elissa D. Hecker
eheckeresq@eheckeresq.com

Citation Editors
Alicia Matusheski (amatusheski@rlscf.com)
Mary Canter (marycanter@ccdc-law.com)

NEW YORK STATE BAR ASSOCIATION
ENTERTAINMENT, ARTS AND SPORTS LAW SECTION
One Elk Street, Albany, New York 12207-1002

ADDRESS SERVICE REQUESTED

NON PROFIT ORG.
U.S. POSTAGE
PAID
ALBANY, N.Y.
PERMIT No. 155