

# Entertainment, Arts and Sports Law Journal



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



- A Legalized "Fashion Police"?
- Fashion Law In-House Counsel
- *Obama HOPE* Poster
- Fair Use of Entertainment Clips
- Legal Issues Arising from the Warhol Estate
- Laws Affecting Holocaust-Era Looted Art
- Museum Deaccessioning Practices in the Current Economic Climate
- Illicit Cultural Property Trade and the 1970 UNESCO Convention
- The Evolution of Sports Agents
- Entertainers, Athletes and Family Offices
- Hiring of Minority Coaches
- Spendthrift Trust—The NBA Age Rule
- Revenue Sources in a Networked World
- Performance Rights Act of 2009
- DMCA § 512(c) Safe Harbor

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# Remarks from the Chair

It was a pleasure to see everyone at the "Entertainment Law in Review: 2008-2009" Spring Meeting! Great thanks to Stan Soocher, the Program Committee who made it happen, and to all of the attendees who came to this sold-out CLE event.



We are very excited about the launch of the new EASL blog under the guidance of its energetic founding editor, Elissa Hecker. Numerous entries on a wide array of topics including e-publishing, film, broadcast programming, sports, and copyright are currently posted, with more to come. This blog is a wonderful opportunity for our EASL Section members to share the latest information on topics of importance to colleagues around the world. It also creates what we hope will be a lively and provocative forum to present a wide variety of views on issues such as alternative dispute resolu-

tion and litigation, copyright and trademarks, and FCC broadcasting rules. The blog gives a voice to the Section, provides an opportunity to flesh out the EASL Web site postings, and offers previews of and comments after programs. While anyone can access the blog site, only an EASL Section member can initiate a topic and blog. Your blog comments should be submitted to Elissa Hecker at eheckeresq@yahoo.com.

In addition to our Spring Meeting, we also had a number of very well-attended recent CLE events. The Trademark Fundamentals event took place on April 2, the Electronic Filing Form D event was on April 5, and the ADR Committee Program was held on May 19. Once again, EASL was honored to co-sponsor with Fordham Law School's Sports Law Panel on April 17, which was also a great success.

Have a great summer!

Kenneth N. Swezey

## NYSBA announces new partnership to help grow careers. [www.nysba.org/lawjobs](http://www.nysba.org/lawjobs)

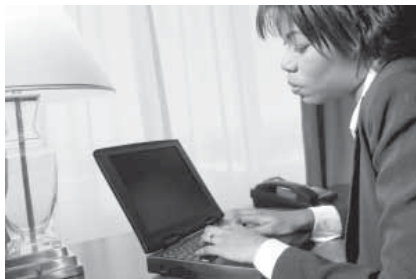
Recognizing that career development is a lifelong process, NYSBA announces its newest member benefit—an online partnership with lawjobs.com—ALM's online legal career center.

Beginning in January 2007, the NYSBA Career Center link will become much more than just a job board.

We'll now connect with lawjobs.com, which utilizes the most streamlined job search technology available and provides a wide range of search features and topical relevant hiring content never before available through NYSBA.

**For Employers:** NYSBA member firms that register in the Career Center will be given free access to the targeted lawjobs resume database, and have the ability to contact over 40,000 candidates. Employers can also purchase job postings, job packages, company profiles and include special upgrades—and keep close track of all activity with real-time view and response-tracking reporting tools.

**For Job-seekers:** Our partnership will offer a free and simple way to create a user account, easy and confidential resume-posting process, cover letter creator, e-mail job alerts, improved job database searchability, a career center with salary information, and career-related news and advice. In addition, NYSBA members will receive discounts on ALM products and services, such as the *New York Law Journal*.



More and more legal professionals are conducting their job searches online via lawjobs, the legal market's most complete solution for connecting job seekers with law firms.

NYSBA's latest partnership will enable member firms to connect with the industry's best legal talent and create new career connections for our membership.



## Editor's Note

This issue is replete with articles that traverse the practice areas of EASL Section members. It is split into sections, first with a continued thread of discussion concerning the Design Piracy Prohibition Act from two different articles, one from the CEO of the American Apparel & Footwear Association and the other representing a series of interviews with in-house counsel to fashion companies.



The second portion features articles that are timely and practical, and includes an interesting piece regarding the Shepard Fairey "Obama HOPE" poster case and a straightforward walkthrough of what may be fair use of entertainment clips in documentaries.

The third section has four articles concerning art, including legal issues arising from the Warhol estate, the validity of laws affecting Holocaust-era looted art and the statute of limitations, an examination of controversial museum deaccessioning practices in the current economic climate, and the 1970 UNESCO Convention on the illicit cultural property trade.

The fourth focuses on sports, with a look at the state of boxing, wrestling and martial arts in New York State, the evolution of sports agents, the importance of establishing family offices for entertainers and athletes, the disproportionate representation of minority head coaches, and finally, an article about how a spendthrift trust may serve as a welcome alternate to the NBA Age Rule.

The fifth section focuses primarily on the impact of the Internet on the music world, and includes articles about free sampling and contemporary creativity, exploring revenue sources for creators in a networked world, an argument in favor of the Performance Rights Act and a discussion about navigating the safe harbor provisions of the DMCA.

I hope that this provides you with some wonderful summer reading.

Elissa

The next *EASL Journal* deadline is  
Friday, September 18, 2009

**Elissa D. Hecker, of the Law Office of Elissa D. Hecker, located at 90 Quail Close, Irvington, NY 10533, 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*, a frequent author, lecturer and panelist, a member of the Board of Editors for the *NYSBA Journal*, a member of the Copyright Society of the U.S.A (CSUSA) and a member of the Board of Editors for the *Journal of the Copyright Society of the U.S.A*. Elissa is the recipient of the New York State Bar Association's 2005 Outstanding Young Lawyer Award. She can be reached at (914) 478-0457 or via e-mail at: EHeckerEsq@yahoo.com.**

## 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, Esq.  
Editor, *EASL Journal*  
eheckeresq@yahoo.com

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

[www.nysba.org/EASLJournal](http://www.nysba.org/EASLJournal)

# Pro Bono Update

By Carol Steinberg

## Speakers Bureau

The Speakers Bureau is taking shape with over 20 volunteer experts in the areas of entertainment, art and sports law, with specific expertise in such diverse legal areas as theater, art, film finance, FCC/ media, and all aspects of music. We encourage you to volunteer and especially to utilize our speakers for your committee or organizational meetings. If your firm needs an update on a specific topic, be sure to contact us. We will be writing educational programs and reaching out to art schools, public schools and librarians to help inform and keep them abreast of entertainment, art, and sport law issues of interest to them.

## Educational Panels

We are also coordinating educational panels for artists and entertainers, and will invite members of various organizations and students to attend. The first will be called "Getting a Gig Without Losing the Store," or "How to Protect Your Ideas/Designs and Still Get Business in Tough Economic Times." In this economic downturn, graphic and other designers have a more difficult time getting business. They want to show their ideas and designs to companies, but want to ensure that those ideas are not stolen. As we all know, companies usually refuse to sign agreements preventing them from copying ideas submitted by designers and often ask them to sign releases just to submit their proposals.

The designers need to understand the basics of copyright, trademark, and design patent law to know what protections they do and do not have, and also how to protect their ideas. They also need practical advice as to how to pitch their ideas and to negotiate with the companies to get jobs without getting ripped off. The panel will consist of a graphic designer, an IP lawyer to cover the basics, a lawyer to talk about theft of ideas, and a representative from a company. We have already lined up Arlana Cohen, Esq., a partner at Cowan, Liebowitz, and Latman who has 25 years of experience in all aspects of trademark associated marketing law and related patent issues. She did a tremendous job on EASL's panel on Fashion Design at our Annual Meeting in January. We are also very pleased to have Monica Pa, Esq., an associate at Davis, Wright, and Tremaine, and member of EASL's Pro Bono Steering Committee, who specializes in publishing and copyright law and who will discuss her Power Point presentation about

idea protection. We will contact three or four organizations, such as the Graphic Artists Guild and The School of Visual Arts, to help us get the word out to make this invaluable panel available to their members.

The next panel will be about fair use for artists and entertainers. Fascinating current cases, such as the two in which street artist Shepard Fairey is seeking a declaratory judgment that his Obama HOPE portrait is a fair use of the Associated Press photograph by Manny Garcia, and photographer Patrick Cariou's case against Richard Prince for incorporating his photographs of Rastafarians into his artwork, illustrate just how the issue of fair use is of constant concern to artists. As a teacher of artists' rights in an art school and frequent lecturer to groups of artists, the most frequently asked questions I am asked are:

- What can I use of images that are out there?
- Can't I just change the work by 10 percent?
- Artists always work off other people's images. If an image is out there, isn't it OK for me to use it?

Artists and entertainers want guidance. Although we cannot provide them with simple rules to guide them in this thorny area, we certainly can help them understand the factors that have to be considered and let them know how the cases have ruled. We will also provide an update on the Orphan Works legislation and help them make sure that their works do not become "orphaned." As with the previous panel, we will reach out to various organizations that can keep their members informed and will include both artists and attorneys on our panel.

**Carol Steinberg, Esq. practices art, copyright, and housing law in New York City and on the East End of Long Island. She is a member of the faculty of the School of Visual Arts where she teaches courses on artists' rights and presents papers at their annual conference on Liberal Arts and the Education of Artists. She is a member of the Pro Bono Committee of EASL's Executive Committee, a member of Association Litteraire et Artistique International, on the Board of Directors of the Fine Arts Federation and the Advisory Board of the Golden Fleece Theater Group. Carol frequently writes and lectures about artists' rights. She can be reached at [elizabethcjs@gmail.com](mailto:elizabethcjs@gmail.com) and at (917) 972-4123.**

\*\*\*

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, Christine Pepe and Philippa Loengard are coordinating walk-in legal clinics with various organizations.

- **Elissa D. Hecker**, [eheckeresq@yahoo.com](mailto:eheckeresq@yahoo.com)
- **Christine Pepe**, [cpepe@mwe.com](mailto:cpepe@mwe.com)
- **Philippa Loengard**, [loengard@law.columbia.edu](mailto:loengard@law.columbia.edu)

### Litigations

Monica Pa is coordinating pro bono litigations.

- **Monica Pa**, [monicapa@dwt.com](mailto:monicapa@dwt.com)

### Speakers Bureau

The Pro Bono Committee's Speakers Bureau provides speakers on entertainment, art, and sports law issues for not-for-profit organizations, art schools, local high schools, and other groups that can benefit from the wide and enormous expertise of EASL's members. One of the most satisfying aspects of a successful career can be to speak to working artists to help them understand their rights and the critical issues that affect their careers.

Please think about volunteering for this wonderful opportunity to share your expertise with students, artists, and young entertainers who can benefit so much from your knowledge. We are also compiling a list of organizations/entities that may want to avail themselves of this great opportunity.

Please send your name, area of expertise, and contact information to Carol Steinberg and Christine Pepe. In addition, please also let them know about excellent speakers whom you have heard speak, so we may contact them, and of organizations who may be interested in having speakers.

- **Carol Steinberg**, [CS9@hpd.nyc.gov](mailto:CS9@hpd.nyc.gov)
- **Christine Pepe**, [cpepe@mwe.com](mailto:cpepe@mwe.com)

### Mentor Program

Elissa Hecker is coordinating the volunteer mentor/mentee program. Please contact Elissa if you would like to volunteer as a mentor. Please specify your practice area(s) and how much time you want to commit to mentoring a junior attorney.

- **Elissa D. Hecker**, [eheckeresq@yahoo.com](mailto:eheckeresq@yahoo.com)

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

## ENTERTAINMENT LAW REPORTER

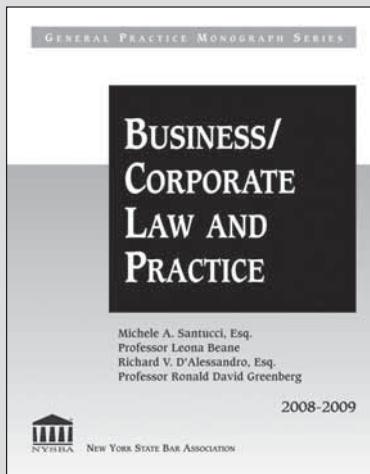
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Technology is revolutionizing the entertainment industry. Its impact on the music business is the most dramatic so far, though the movie business is close behind. Book and periodical publishers are feeling technology's effects too. Even the *Entertainment Law Reporter* has not been immune. So, after more than 27½ years of traditional publishing in print, the *Entertainment Law Reporter* is available online, free-to-the-reader, at [www.EntertainmentLawReporter.com](http://www.EntertainmentLawReporter.com).

Simply navigate your browser to the *Reporter's* website, and that month's articles will be there, waiting for you to read. In fact, new articles will be posted many times each month, just as soon as they are written, to get the information to you more quickly than was possible with a monthly print publication.

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# Business/Corporate Law and Practice



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

## Law Student Initiative Writing Contest

Congratulations to LSI winner:

**Susan McAleavey**, of St. John's University Law School, for her article entitled:

“SPENDTHRIFT TRUST: AN ALTERNATIVE TO THE NBA AGE RULE”

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, law school club/organization (if applicable), 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, September 18, 2009**.
- **Submissions:** Articles must be submitted via a Word email attachment to:

Elissa D. Hecker, Esq.  
Editor, *EASL Journal*  
eheckeresq@yahoo.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, and all winners will be announced at the EASL Section Annual Meeting.

**Next *EASL Journal* Submission Deadline:  
Friday, September 18, 2009**

# The Phil Cowan Memorial/BMI Scholarship

2008 Scholarship Winners: Bryan Georgiady, Syracuse University College of Law and Ryan C. Steinman, New York Law School

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

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

## The Competition

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

The paper should be 12 to 15 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 (which is not part of the page count) should contain the title of the paper, the student's name, school, class year, telephone number and e-mail address. The first page of the actual paper should contain only the title at the top, immediately followed by the body of text. **The name of the author or any other identifying information must not appear anywhere other than on the cover page.** All papers should be submitted to designated faculty members of each respective law school. All law schools will screen the papers and submit the three best to EASL's Phil Cowan Memorial/BMI Scholarship Committee. The Committee will read the papers submitted and will select the Scholarship recipient(s).

## Eligibility

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

## Yearly Deadlines

**November 15th:** Law School Faculty liaison submits three best papers to the EASL/BMI Scholarship Committee;

**January 15th:** EASL/BMI Scholarship Committee determines the winner(s).

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

## Prerogatives of EASL/BMI's Scholarship Committee

The Scholarship Committee is composed of the current Chair of EASL, all former EASL Chairs who are still active in the Section, all Section District Representatives, and any other interested member of the EASL Executive Committee. *Each winning paper will be published in the EASL Journal and will be made available to EASL members on the EASL Web site.* BMI reserves the right to post each winning paper on the BMI Web site, 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. The Scholarship Committee reserves the right to submit all papers it receives to the *EASL Journal* for publication and to the EASL Web site. The Scholarship Committee also reserves the right 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.

## Donations

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

## About BMI

BMI is an American performing-rights organization that represents approximately 350,000 songwriters, composers and music publishers in all genres of music. The non-profit-making company, founded in 1940, collects license fees on behalf of those American creators it represents, as well as thousands of creators from around the world who chose BMI for representation in the United States. The license fees BMI collects for the "public performances" of its repertoire of approximately 4.5 million compositions are then distributed as royalties to BMI-member writers, composers and copyright holders.

## About the New York State Bar Association/EASL

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

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

## Entertainment, Arts and Sports Law Section Blog

Provides a Forum and News Source on Issues of Interest

The blog will act as a new informational resource on topics of interest, including the latest Section programs and initiatives, as well as provide a forum for debate and discussion to anyone in the world with access to the Internet. It is available through the State Bar Web site at <http://nysbar.com/blogs/EASL>.

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# A Legalized “Fashion Police”?

By Kevin M. Burke

At one moment or another throughout the course of our lives, we have all had a friend offer an unsolicited, negative comment on the attire we chose to wear on that particular day. Our joking response to such a comment is usually the same, “Who are you, the Fashion Police!?”

Yet, the joke has turned into at least three Web sites, magazines and even some television shows, which, like the friend, critique or downright ridicule new designs people and celebrities wear. Can you imagine what the world would look like if this friend were the United States legal system?

Unfortunately, legislation pending before Congress would do just that. It seeks to set arbitrary and ever-changing boundaries around what fashion designers can and cannot create. Improperly titled the Design Piracy Prohibition Act (the DPPA or the “bill”),<sup>1</sup> this bill will inadvertently unravel the way fashion trends flow and will ultimately empower the U.S. court system to make subjective decisions about the styles of clothing available for purchase by the American consumer.

## What’s the Problem?

As famous actors and actresses walk down the red-carpet in their new *haute couture* tuxedos and evening dresses, there are factories making exact copies of these items, shipping them to stores throughout the United States and selling them for a fraction of the price. Instead of tackling that specific problem, DPPA creates a system that would result in legitimate American companies and designers, both large and small, suing each other. Even worse, the legislation would open the door for foreign companies to sue American design firms.

Industry proponents of the DPPA have argued that this “red carpet” phenomenon violates their intellectual property rights by preventing them from recouping the benefits of their creations. Although purporting to address this narrow issue, the bill goes much farther and has deeper implications for the entire industry.

## Originality

DPPA would provide three-year copyright protection to “original” fashion designs. Unfortunately, the standard for originality under copyright law is extremely low and would not require the Copyright Office to ensure that an article submitted is truly unique. In other words, most designs submitted and registered under the DPPA system would likely be undeserving of protection in the first place.

Proponents of the measure claim that every article of clothing that has ever existed in history would be part of the “public domain” and therefore ineligible for protection. However, the bill contradicts itself as it would allow for the protection of an “original arrangement or placement of . . . **non-original elements** as incorporated in the overall appearance of the article of apparel.”<sup>2</sup> Non-original elements and articles are what populate the public domain. This provision therefore allows non-original elements to be protected as “original,” establishing a frighteningly conflicting legal framework.

For example, suppose a pair of pants is submitted for registration, which includes a sash that was previously incorporated on a shirt. That shirt and sash exist in the public domain and are therefore, under the bill, open for anyone to use. However, since the sash has now been used in an “original” way (on the pants), the DPPA would allow that once-unoriginal sash to be protected as original.

Moreover, the bill even permits exact copies of unoriginal articles in the public domain to receive protection and thus declared as “original.” With no test for originality at the Copyright Office, the bill creates an enormous loophole that runs completely contrary to the bill’s intentions.

Many in the industry also question whether there is anything truly original in the fashion industry anymore. Terms like “vintage” and “coming back into style” are often used when talking about an old item that has returned to popularity or become “trendy” again.

It is at this juncture that fashion is found to be as revolutionary as much as it can be evolutionary. However, unlike music, literature and art, fashion does not operate in a limitless vacuum, as it is constrained by the inherent nature of the human body. A shirt will always be made to accommodate a head and two arms. A dress will have some functional piece to hold it up and will fall down around the body. A pair of pants will always come with spots for two legs. Furthermore, as changes, improvements and additions have been made to these basic blueprints to affect the look—as sleeves have been made shorter and longer, as pants evolved into shorts, as dresses turned into skirts—we see an industry that creates utilitarian items that may be *new*, but not necessarily *original*.

## Infringement

The infringement scheme of this bill is equally worrisome, as it uses an impossibly subjective standard of

“closely and substantially similar.”<sup>3</sup> In works currently covered by copyright, it can be relatively straightforward to determine an infringing article when compared with the original.

Music is inherently mathematical, and by looking at the math of music one can easily see and hear similarities between two compositions. Art can exist as any creation of the artist’s mind in both two-dimensional as well as three-dimensional forms. If someone were to paint anything *close and substantially similar* to Andy Warhol’s Campbell’s Soup cans, it would be an obvious infringement. Even in literature, a novel that resembles *Tom Sawyer* would be easily picked up as a knock-off of the American classic.

While fashion *can* be an artistic endeavor, it is inherently utilitarian. Art and literature are used for decoration or entertainment. Apparel and footwear, on the other hand, are items needed by every single person.

Moreover, fashion consists of a conglomeration of lines, shapes, colors and patterns that are either not copy-rightable in the first place or already protected under current law. For example, current trademark and copyright laws are used in many instances to protect various aspects of fashion. While trademark protects the brand name, copyright can be used to protect some two-dimensional patterns on clothing. Even under current copyright protections, case law has shown the problematic and subjective nature of protecting even these fabric designs.<sup>4</sup>

Furthermore, unlike copyrightable works, the possibility of two fashion designers creating two garments *closely and substantially similar* to each other is far more likely than two people sitting down and writing the exact same novel or song, due to the fact that fashion designers have to work within the limited confines of the human body. Even in sculpture, if the work is representative of the same person, place or thing, both works may be eligible for copyright and not infringing, because the artists have a much wider universe within which to work.

The DPPA would disrupt an industry that moves very quickly. Whereas we live in a world with four seasons, the fashion industry operates within a universe that contains several overlapping ones. Every day, articles are designed, made and brought to market to reflect changing times and show off fresh looks. If enacted, the DPPA would slow down this free-flowing process. The potential for litigation would arise the moment two competing design firms decide that one has infringed upon the other, when in reality they were both either following the same seasonal trend or independently creating something similar to the other.

## Defenses and Safe Harbors

The bill does not offer sufficient mechanisms for defense or appropriate safe harbors to prevent good actors

from being caught by inadvertent infringements. The two main defenses are “independent creation” and following a “trend.”

Given the high possibility of two designers making something similar, independent creation must be available as a defense, which the bill does provide. However, it puts the onus onto the defendant to prove his or her own innocence by showing that no copying took place. The burden of proof *should* rest on the plaintiff due to the fact that in the United States, a person is innocent until *proven* guilty. Moreover, if an incident of independent creation is found and accepted, then one of two scenarios should occur: (1) both garments should be offered protection or (2) neither garment should be afforded protection. Under the DPPA scheme, the copyrighted work would still be protected while the defended work would not be.

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*“Given the high possibility of two designers making something similar, independent creation must be available as a defense, which the bill does provide. However, it puts the onus onto the defendant to prove his or her own innocence by showing that no copying took place.”*

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The entire fashion industry operates on trends. In fact, fashion may be the only real commodity where trends truly serve as the lifeblood. Typically, trends start from the high-end products and flow toward the lower-priced goods. Just think about every time a commercial comes on from some department store marketing designer clothes for less. The bill’s trend language is highly inadequate and does not accurately reflect the true nature and importance of fashion trends.

The bill defines “trend” as “a newly popular concept, idea, or principle expressed in, or as part of, a wide variety of designs of articles of apparel that create an immediate amplified demand for articles of apparel embodying that concept, idea, or principle.”<sup>5</sup> When thinking about fashion trends, concepts, ideas and principles do not come to mind, while the prevalence of cargo pants and shorts, the influx of Capri pants in past summer seasons, bellbottoms of the 1970s certainly do. Of these clear examples of past and present trends, can anyone identify what concept idea or principle is embodied in them? As such, it is highly questionable how the DPPA’s trend defense could be used.

Lastly, not one single safe harbor can be found in the bill. When driving a car, if the speed limit is posted at 65 miles per hour, a driver going 90 miles per hour knows that he or she is now guilty of speeding and therefore could be pulled over by the police and given a ticket.

Under the proposed DPPA system, innocent individuals would be exposed to infringement due to the fact that no safe harbors exist to show that they acted properly and did the right things necessary to protect themselves from either frivolous litigation or legal intimidation. In essence, the bill allows individuals to be pulled over for speeding without there ever being an established speed limit.

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*"[T]hese businesses and designers should be competing against one another in the marketplace and not in the courtroom."*

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## Liability

The current draft of the DPPA provides for a registry of fashion designs for which copyright is claimed.<sup>6</sup> Such a design registry is important for people in the industry to understand what types of items are being copyrighted (i.e., being declared "original"). Unfortunately, the language of the bill has "a reasonable grounds to know" provision for liability<sup>7</sup> and the existence of a design on the registry could very easily show that an accused infringer should have had knowledge that a design was protected. Designers do not currently have to check their designs against any registry, but if the DPPA becomes law, failure to check the database would be grounds for infringement. As an additional complication, the bill would allow plaintiffs to delay registration by six months, forcing designers to revisit the registry repeatedly to protect them from any accusation of retroactive infringement under this "reasonable grounds" standard. In essence, the bill adds another arduous step to the process while simultaneously offering no safe harbor to show the designer was acting in good faith. This step will undoubtedly delay articles of apparel and footwear getting to market.

The secondary liability provisions are also worrisome, as they would place industries and companies such as retailers, distributors, truckers and shippers in harm's way simply for having goods accused of infringement in their possession. Much like designers, retailers will essentially have to utilize legal review over every single item that comes into the stores to ensure they are not infringing any design in the registry. To say that compliance with this requirement would be "impossible" is a gross understatement.

## Conclusion

Competition is encouraged in business and the apparel and footwear industries are no different. However, these businesses and designers should be competing against one another in the marketplace and not in the courtroom. This competition should be healthy and based upon quality, price and aesthetic value.

The DPPA would change all of that by imposing a system where there will be no winners—not the companies, not the consumers, and not the designers. Only the litigators will see any financial benefit in the course of representing their clients. The bill's enforcement and legal mechanisms will rely solely on subjectivity, which ultimately will be decided by the feelings, and not the facts, of a plaintiff.

The legislation does create a legalized Fashion Police. Yet they will have a force with no officers and a framework where competitors have the legal right to declare each other's product illegal, enabling that declaration to turn into a costly and lengthy fight in court. Nevertheless, in much the same way that some take friends' advice on hideous outfits, people are still going to wear what they want and no one—not a high-end designer, not a lawyer, not a judge or jury, and certainly not the government—can or should be able to tell them otherwise.

Let us keep the Fashion Police where they belong, as a silly little joke.

## Endnotes

1. H.R. 2196, 111th Cong. (2009).
2. DPPA § 2(a)(3).
3. DPPA § 2(e)(3).
4. *Express, LLC vs. Fetish Group, Inc.*, 424 F. Supp. 2d 1211 (C.D. Cal. 2006).
5. DPPA § 2(a)(2).
6. DPPA § 2(j).
7. DPPA § 2(e).

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# FASHION LAW IN-HOUSE

## A Touch on Current Challenges Facing Fashion In-House Counsel

By Shushana Jacobov

Intellectual Property (IP) law is an ever-changing discipline, which in turn, affects the way many attorneys practice their profession. While IP law pervades every industry, its concentration permeates the fashion world. In order to understand the practical effect of developments in IP practice, there is no better way than to explore the experience of lawyers who are living it. The following article will examine eight surveyed in-house counsel in the fashion industry<sup>1</sup> and how current challenges in IP law and the present economy are shaping their practices.

### What Is Fashion Law?

In-house counsel at fashion brands have been described as practicing “fashion law.”<sup>2</sup> As Barbara Kolsun, General Counsel of Stuart Weitzman LLC, observes, “There are various aspects to what would be referred to as fashion law: intellectual property, corporate, employment, real estate, customs, commercial/contract, licensing, counterfeiting and enforcement.”<sup>3</sup> Fashion law also encompasses product safety and a unique issue to the industry—dealing with factors, according to the senior vice president of legal at an international luxury brand. As he explains, “[f]actors are companies that specialize in outsourcing your company’s products to department stores and other sales channels. They have unique knowledge of the retail market and its players and are on top of buyers’ credit-worthiness status. They will assign rights to sell against wholesale accounts and the grey market.”<sup>4</sup> Talent matters encompass another fundamental function of fashion attorneys. As a senior attorney for a global beauty conglomerate describes it, “Most of my time consists of interacting with talent, photographers, models, bottle designers, public relations agencies and music licensing.” The legal concepts involved in his practice span the gamut of IP law, with a particular focus on advertising law. “Fashion law combines two disciplines—the constant business-driven nuts and bolts agreements,” says one senior attorney at a New York-based apparel brand, “but then there’s the seasonal nature of this business which drives our IP protection work.”

### An IP Focus

In the survey of in-house fashion attorneys, the following sub-areas of IP encompass their practices the most: trademark registration and enforcement, counterfeiting, copyright, right of publicity, right of privacy, design patents, and trade dress. However, the type of IP that in-house counsel utilizes varies within the industry. For example, in relation to counterfeiting, Kolsun explains, “As general counsel at Kate Spade and Calvin Klein, counterfeiting was my top priority because of the nature of the products. Counterfeiters want to work with minimum input and quick returns.” Consequently, coun-

terfeiters target brands that have strong t-shirt and jeans sales as well as easily constructed accessories products. In contrast, Kolsun’s current practice is almost devoid of counterfeit work. “Counterfeiting is just too hard to do here. Our shoes and handbags are very expensive to copy.”

When it comes to design patents, most in-house counsel seldom use this protection vehicle because they complain that it does not address the core of the fashion industry, namely, its seasonal nature. For them, design patents take too long to process at an average pendency of two years. At the same time, design patents offer too much protection at 14 years. As Alain Coblenche, General Counsel of the Council of Fashion Designers of America (CFDA), explained at the 2009 New York State Bar Association’s Annual Meeting, design patents miss the mark on both ends. The length of time that it takes to obtain protection leaves designers vulnerable to copying, which strips the originator of his or her ability to monetize on a design or trend. “You have the Oscars,” says Coblenche. He explains how, on the very next day, the *Today Show* will display knock-off designs for a fraction of the price. “So this is the dress of Gianni Versace that Meryl Streep was wearing last night, and you can have it for \$299.” (See NYSBA *EASL Journal*, Spring 09, Vol. 20, No. 1, p. 49.) For Coblenche and for the CFDA, designers need enough time to go from runway samples, to full production, to a reasonable time for the trends to be realized and to be purchased. Simultaneously, 14 years is entirely too long a protection period. “We’re interested in protecting for three years max,” as fashion, remarked Coblenche, does not require longer protection because styles will not last much longer than that.

For other in-house attorneys, design patents make sense for specific products that the company believes will outlast a seasonal trend. “We have one on a handbag,” states a senior attorney for a well-known European apparel and accessories brand. “They are so time-consuming and fashion moves too fast, so by the time it goes through, you’ve already concluded that it’s not the ‘it’ bag anymore. If you’ve done enough research to know it’s a winner, a design patent might work for certain accessories. . . . In any event, it is definitely a conversation between legal and marketing teams.” Still, the other major drawback, especially in the current economy, is the cost. At an average of \$2,000 a design patent for large companies, plus hourly attorneys’ fees, many in-house counselors recognize that their companies cannot afford it.

### Recent Counterfeit Concerns

While in-house counsel struggle with shrinking legal budgets and more internal demands, they are experienc-

ing a particular legal challenge. Fashion companies are now facing the emergence of counterfeiters who are filing applications for similar or identical marks and receiving trademark registrations around the world. These registrants then enter the United States and show Customs officers their trademark registrations. Naturally, Customs officials take the registration receipts at face value. Thus, counterfeiters from countless countries have constructed a mechanism by which to steal trademarks and produce counterfeit products. As a result, more and more in-house counselors are finding their trademarks on counterfeit products entering the United States without penalty. For one European fashion brand attorney with a pattern as a trademark, this problem is very real: "Counterfeiters are applying trademarks with a slight difference in pattern to our own and receiving registrations abroad. They've then come into the States and not only brought their pirated merchandise, but have had the audacity to threaten suit themselves!" Asked what solution should be proposed to combat this bizarre problem, she answers, "It's a combination of better Customs education and stricter state and federal anti-counterfeiting laws." One general suggestion posed by virtually all surveyed brand attorneys is better communication between international customs enforcement (ICE) and brand owners. "I would love to see a continual dialogue and updates after I received a citing report," remarks one brand attorney. Oftentimes Customs will seize a shipment, send in-house counsel pictures of a sample, and ask him or her to identify whether the goods are authentic. "Right now, it seems like I never hear from them again." Additional information about the size of the seized shipment, country of origin and more details about the counterfeiter would enable brand-owners to identify repeat offenders and to allocate enforcement and other resources, both geographically and seasonally.

Other attorneys are facing a similar problem in foreign jurisdictions. As one couture fashion label is finding, counterfeiters are starting to file trademark applications in their native lands to legitimize their activities there and abroad. In first-to-file jurisdictions such as China, Korea, Brazil, Japan, Mexico and United Arab Emirates,<sup>5</sup> the problem is even more challenging. "Take China," says one fashion attorney. "The counterfeiter applies for a mark with a one-letter addition or alteration. There, the trademark office is pretty much uninterested in protecting brand owners. I have been outright told by our Chinese attorneys that there's protectionism in the Chinese government, even where it's clearly illegal, because it brings up the country's revenue." In fact, the latest statistics made available from the Department of Homeland Security (DHS) indicate that in 2008, China was the source of 81 percent by value of all infringing goods seized at U.S. borders. In some sectors, the impact of Chinese imports was particularly severe, with China as the source of 96 percent of all seized imports of counterfeit footwear.<sup>6</sup>

Brand owners are compelled to force the cancellation of the first filer's registration before they may file their

own. As brand attorneys are finding, this can be an almost impossible task. The procedural process of overturning a trademark office's judgment can be prohibitively expensive. As the attorney quoted above was told by his Chinese counsel, there are no default judgments in China, so that even if the other party does not appear, the court may still rule for it. From there, the appeals chain is three levels long with a very narrow chance of a reversal until the final stage, where the chance increases only slightly. Consequently, many brands are forced to ignore certain counterfeiters simply because of cost.<sup>7</sup>

## The Law of Economics

In the same way that products can dictate which IP protections are utilized, in-house counsel are finding that the current economy is shaping the way that they run their practices. In the same survey of eight in-house counselors, seven have negotiated and restructured their base rates and special project rates with their outside counsel both in the U.S. and internationally. The range of reduction span from 5 percent to as high as 35 percent deductions. Seventy-five percent of attorneys said that a firm's unwillingness to negotiate for new rates in the current economy would be cause for hiring of new outside counsel. "People are asking much more openly now for discounts. Outside counsel really needs to wake up and smell the coffee," says Kolsun. After attempting to negotiate with a firm for a cut in its percentage of a real estate lease and receiving the firm's refusal, Kolsun awarded the contract to another attorney who had recently e-mailed her with an announcement of reduced rates. "You have to have outside counsel that is willing to be there for you in good times and in bad. When the economy turns back around, I will give the work to attorneys who were willing to be flexible with the times."

In lieu of reducing rates, other firms are being creative about their billing. As one apparel brand attorney explains, "They're writing way more off. It is not \$600/hr to \$450/hr but they're in effect writing off 25 percent of the time they're working on projects." One possible reason for this approach is the benefit it may provide for a future improved economy. By not reducing the rates, firms do not have to orchestrate bringing rates back up. Reducing the number of given writeoffs as times recover is a smoother transition than, say, having to announce an increase in hourly rates.

In addition to price negotiations, in-house counselors are taking a more hands-on approach to the work of their outside counsel. As a senior attorney for one beauty brand points out, "I have made it clear that before any work is performed at all, they need to speak with me first [in order] to evaluate which work could be done in house and to speak about pricing upfront." Moreover, all surveyed attorneys are currently taking legal work back indoors. "I'm doing trademark searches and term reviews on my own," says one New York brand attorney. "I have even been dealing with foreign counsel directly and, yes,



with the drawback being that I'm not getting my U.S. firm's expertise." Other transactional work brought in-house includes trademark prosecutions, corporate work, real estate deals and licensing. "Normally we would send out draft amendments to licensing agreements," relates the attorney, "but now we're handling it all ourselves. We are even beginning to push work out to the other party involved in a given contract."

Even in litigation, an area that is traditionally allocated to outside counsel's expertise, in-house attorneys are beginning to take the lead. "[As for s]ummary judgment motions requiring facts, exhibits and affidavits, I'll have in-house do the first pages, a paralegal do exhibits, and I'll write the affidavit," explains a global brand attorney. "We will at least do the first draft, where we would never do that before. I have a mediation brief now. Usually outside counsel would take it all, but we did it ourselves."

### IP Protection and the Economy

One may wonder, in the face of strict budget cuts, if IP protection is taking a backseat. According to one senior counsel for an international beauty brand, an owner of hundreds of trademarks, the answer is yes. "We are needing to put certain things off," says the attorney. "There are trademarks we want to register in certain countries and we would search and file now but we're holding off. And we're focusing on some products above others for IP attention." For example, fragrance is deemed very valuable right now, as opposed to a seasonal color launch or a new mascara. "It depends on how important the product is expected to be and at the end of the day, you have to go back to basic trademark law—how suggestive or fanciful is the mark? We cannot waste our resources now with suggestive marks."

Some attorneys embrace the opposite philosophy, however. To them, IP protections are the most solid and responsible way of protecting a brand in any economy, as resources spent on safeguarding IP rights can support a brand's bottom line. "We've instructed 20 new trademark applications in this year alone," says a New York brand attorney. Others agree, believing that IP is not an area of sacrifice. Asked at what point in this economy IP protection would be compromised, one surveyed counsel answered, "[n]ot until just before filing for bankruptcy!"

He may be on to something. In a time where brand owners are losing customers and cutting budgets, there is a widely untapped resource that brand owners and their in-house counsel need to explore. According to one in-house counsel's 2008 books, her legal team's counterfeit settlement efforts brought in over a quarter of a million dollars in pure revenue. "It amazes me how so many brands I know just have paralegals working on their counterfeit work, who don't have the background or skills to negotiate settlements," she says. "Bringing in a sharp, aggressive attorney to work exclusively on anti-counterfeit enforcement and settlements just makes sense.

You then go to your CEO, as I have done, and demonstrate how your attorneys have not only paid for their own salaries in settlement money, but actually improved the company's bottom line." In effect, a department that is traditionally a money-expenders can now effectively monetize on the value of its company brand.

### Conclusion

In-house counsel at fashion brands are tackling challenges from internal budget constraints to global IP issues and continuing to think creatively about protecting and supporting the value of their marks. As the fashion industry is being forced to evolve, it is changing the way lawyers practice and shaping, in real time, the speciality of fashion law.

### Endnotes

1. Most attorneys asked to remain unattributed. Some are quoted entirely anonymously with others identified by a basic description of their companies.
2. *E.g.*, Scafidi, Susan, *Intellectual Property and Fashion Design*, Intellectual Property and Information Wealth, Vol. 1, No. 115, 2006.
3. Kolsun, along with Guillermo Jimenez, will release their upcoming book this fall entitled, *Fashion Law: Legal Issues for Fashion Executives & Designers—Instructor's Guide*.
4. For example, in February, Barneys New York's creditworthiness was temporarily reduced by factors Rosenthal & Rosenthal and Hilldun Corp, pending more information of the store's finances and plans. See David Moyn & Vicki Young, *Factors Drop Barneys Over Sale Uncertainty*, Women's Wear Daily, Feb 23, 2009.
5. For a complete list, visit [www.iacc.org](http://www.iacc.org).
6. U.S. Customs and Border Protection and U.S. Immigration and Customs Enforcement FY 2008 Top Trading Partners for IPR Seizures, available at [http://cbp.gov/linkhandler/cgov/trade/priority\\_trade/ipr/seizure/fy08\\_final\\_stat.ctt/fy08\\_final\\_stat.pdf](http://cbp.gov/linkhandler/cgov/trade/priority_trade/ipr/seizure/fy08_final_stat.ctt/fy08_final_stat.pdf). See also EU Report on Community Customs Activities on Counterfeit and Piracy—Results at the European Border, May 2008, setting out results of 2007 seizure statistics in the EU at <http://europa.eu/rapid/pressReleasesAction.do?reference=IP/08/757&format=HTML&aged=0&language=EN&guiLanguage=en>.
7. For more information about current state of IP enforcement in China, see 2009 *Special 301 Review: Identification of Countries Under Section 182 of the Trade Act of 1974: Request for Public Comment*, 74 Fed. Reg. 4263 (January 23, 2009).

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# Obama HOPE Poster: Art, Copyright Infringement, or Both?

By Joel L. Hecker

## Overview

Fair use is a concept in copyright which allows for a balancing act of rights granted to the creator under Article I, Section 8 of the U.S. Constitution,<sup>1</sup> and the protections afforded to the public under the First Amendment to our Constitution.<sup>2</sup> It is therefore an exception to the exclusive monopoly granted to copyright owners under the current copyright statute, the U.S. Copyright Act of 1976 (the “Copyright Act”).<sup>3</sup>

The Copyright Act provides four non-exclusive factors to be considered in determining whether a use of copyrighted material falls within the fair use exception.<sup>4</sup> These four factors are:

1. The purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purpose;
2. the nature of the copyright work;
3. the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and
4. the effect of the use upon the potential market for or value of the copyright work.

There is no bright-line rule for weighing these four statutory factors against each other and no single factor is dispositive, although the transformative aspect, considered under the first factor, has now become paramount. The courts have stated that the ultimate test is whether the copyright law’s goal of promoting the “Progress of Science and Useful Arts” as set forth in Article I, Section 8 of the U.S. Constitution would be better served by allowing the use than by preventing it.

*Shepard Fairey v. The Associated Press*, a case commenced on February 9, 2009 in the U.S. District Court for the Southern District of New York,<sup>5</sup> may very well redefine how the courts treat the important “transformative” aspect of fair use. The case concerns Fairey’s creation of an illustration of Barack Obama that was reproduced on posters for President Obama’s presidential campaign, the most widely known of which is the *HOPE* poster, and subsequently used on t-shirts.

## The Parties

Shepard Fairey, a 39-year-old artist who lives and works in Los Angeles, began his art career in 1989 while a student. To a great extent, he copies all or significant



portions of existing photographs or art and uses them as the basis of his work. He refers to this practice as a “visual reference.” Others refer to it less generously as “appropriation art,” and consider it to be blatant copyright infringement.

The Associated Press (AP), a not-for-profit membership cooperative corporation, was founded in 1846. It gathers and distributes news and information worldwide and is one of the largest such organizations in the world. Fairey’s marketing and distributing companies, Obey Giant Art, Inc., Obey Giant LLC and Studio Number One, Inc., are also parties to the original actions.

## Which Is the Underlying Photograph?

One unusual aspect of the case is that the underlying photograph used by Fairey to create his illustration used in the Obama posters is in dispute. Manny Garcia, a professional photographer, created a series of images at a 2006 National Press Club event about the humanitarian crisis in the Darfur region of Africa. The actor George Clooney was sitting at a table beside then-Senator Obama. However, the parties do not agree which photograph created by Garcia was used by Fairey.

Fairey, after initially refusing to identify any particular photo as the one he used for his visual reference, now claims in the litigation that it is a cropped version of a photo of both Clooney and Obama taken by Garcia, with Clooney deleted from the photo, and the angle of Obama’s head and neck altered.



AP, on the other hand, claims that a different photo taken by Garcia at the same time and event, in which only Obama appears, is the underlying photo. This other photo, claims AP, when overlaid onto Fairey’s illustration, demonstrates that the two are exactly the same (which appears to be the case).

After some initial confusion as to what rights, if any, AP had to the photos (since Garcia was the photographer), it became clear that AP claimed Garcia was a staff photographer for AP. As a salaried employee, all of his photographs were works made for hire under the Copyright Act. Therefore, AP claims it owns the copyright to all of Garcia's photos created as part of his employment for AP.



In a February 2008 interview, Fairey admitted he used an AP photo as a visual reference but refused to identify which photo he used. Bloggers eventually became curious and began looking into the situation. As a result, various bloggers identified several possible sources for the underlying photo, some more credible than others. Fairey eventually took the position that, in fact, the Garcia photo of Clooney and Obama was the one. AP later determined that it was Garcia's tightly cropped photo of only Obama. The differences in the underlying photos, as discussed below, help shape the content of each party's legal arguments. These contesting claims will have to be sorted out as the case proceeds toward trial.

## The Posters

Fairey claims that his posters were part of a series of iconic works he created to support the presidential candidacy of Obama. All of these works used the same illustration he created of Obama based upon a Garcia photo.

He called the first one *Obama PROGRESS*, and identified it as an abstract graphic rendition of Obama gazing up and to the viewer's right, colored in a palette of red, white and blue, with the word "Progress" in capital letters beneath the image of Obama. Days later, Fairey created a second poster utilizing his same illustration, which became known as *Obama HOPE* since the word "Hope" replaced "Progress" beneath his illustration of Obama.

By the summer of 2008, *Obama HOPE* had become, at least according to Fairey, a "ubiquitous symbol" of Obama's candidacy and pervasive presence across America.

His third poster, *Obama Hope Mural*, was created by Fairey for an art exhibition held in Denver during the Democratic National Convention, in conjunction with Obama's nomination for President.

Following the election, the Presidential Inaugural Committee asked Fairey to create an official poster to commemorate the inauguration of President Obama. This

resulted in Fairey's fourth poster, which was entitled *BE THE CHANGE*. This poster also used the same Obama illustration, but this time it was flanked by images of the U.S. Capitol building and White House, with a cheering crowd beneath the illustration.

Immediately following the election, Fairey created a fifth image, which he entitled *YES WE DID*. This poster also features the same Obama illustration, but has additional visual elements in the upper center.

Finally, on January 17, 2009, a large-format, hand stenciled collage created by Fairey and incorporating the *HOPE* poster with other visual material, was unveiled at the Smithsonian Institution's National Portrait Gallery in Washington, D.C.

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*"Fairey's lawsuit seeks a declaratory judgment that Fairey's illustration and posters of Obama constitute fair use under the Copyright Act and do not infringe any AP copyright."*

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## Why Fairey Filed His Complaint

On January 29, 2009, an attorney for AP first contacted Fairey's production studio, claiming that Fairey's illustration of Obama constituted infringement of AP's copyright in its Garcia photo. During the following week, discussions were held between the two sides concerning the possibility of resolving the issue by AP's granting a retroactive license to Fairey to use the Garcia photo as reference material for the illustration. This was followed by Fairey's preemptive filing of the lawsuit on February 9, 2009 (one day before AP's stated deadline by which AP said it would file its own copyright infringement lawsuit). Fairey's lawsuit seeks a declaratory judgment that Fairey's illustration and posters of Obama constitute fair use under the Copyright Act and do not infringe any AP copyright. Lead attorneys for Fairey are the Stanford Law School Center for Interest and Society, who are believed to be interested in this case because of their desire to broaden the scope of the fair use exception to the Copyright Act as it has been applied by the courts.

On March 11, 2009 AP filed its answer to the complaint which, as expected, denied all of the material allegations continued in the complaint. AP also filed counterclaims for direct and contributory copyright infringement.

The gist of the counterclaims is that Fairey was fully aware that the Garcia photo used, as alleged by AP (although the theory applies equally to both Garcia photos), was copyrighted, and that Fairey's illustration of Obama copied all the distinctive and unequivocally recognizable

elements of the photo in their entire detail (including the heart and essence of it), as well as its patriotic theme.

### Fairey's Position—Transformative Use

Fairey claims that he used the Garcia photo of both Obama and Clooney solely as a visual reference, and that he transformed the literal depiction contained in the photo into a “stunning, abstracted and idealized visual image that creates powerful new meaning and conveys a radically different message that has no analogue in the original photograph.”<sup>6</sup>

Fairey further claims that the original Garcia photo was previously published to depict a factual occurrence, while his image was a fictional and highly creative work. As to the amount of the taking, Fairey claims only a portion of the photo was used (with Clooney cropped out) and that the amount of the taking was reasonable in light of his expressive purpose.

Finally, Fairey claims that his use of the photo imposed no significant or recognizable harm to the Garcia photo, or any market for, or derivative of, it. In fact, Fairey claims his posters have greatly enhanced the value of the Garcia photo.

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*“This case has the potential for a far-reaching clarification, expansion, or even narrowing of the concept of fair use in copyright as it applies to appropriation art and how far an artist can go when using the copyrighted creation of others in the name of art.”*

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### AP's Position—Blatant Copyright Infringement

AP presents a side-by-side comparison of the Garcia head shot photo of Obama and Fairey's illustration, and concludes that the striking similarity between them is patently obvious. In fact, an overlay of one over the other shows, according to AP, that they are exactly the same (which seems to be an accurate conclusion). This includes the angle and slant of Obama's head, his gaze and expression, the contrast, focus, and depth of field, as well as the shadow lines created by the lighting in the photo. In addition, the illustration uses the red, white and blue flag imagery that is captured in the background of the photo.

AP also claims that Fairey's profits on his illustrations already exceed \$400,000, with a great deal more profit expected to be made as a result of the publicity generated by this lawsuit. (After commencement of the lawsuit, and independent of it, a photograph appearing on the front page of the *New York Times*, April 27, 2009, concerning a different topic, shows a woman wearing a t-shirt with Fairey's Obama illustration over the word “Change.” This

merchandising use, presumably licensed by Fairey, is in addition to those referred to in the initial pleadings.)

As part of its counterclaims, AP sets forth a narrative of what it is and what it does. In summary, AP employs approximately 3,800 people in approximately 240 locations worldwide. It depends in great part on licensing fees to support its news-gathering efforts and business, and to compensate its photographers and other talent for their efforts.

AP also goes into great detail with regard to Fairey's prior history as an artist, including what is alleged to be a pattern of willful disregard for the property rights of others and numerous instances of misappropriating works from other artists. AP claims that these acts (where Fairey did not give any attribution to the original creator) constitute a consistent pattern of copyright infringement by Fairey. AP also argues that these, and other stated acts, constitute “bad faith” conduct by Fairey.

In juxtaposition to these “bad acts,” AP claims that Fairey has a highly sophisticated understanding of licensing and a copyright protection program that is highly protective of his copyrights and trademarks, as well as his own work. AP alleges specific examples to support this contention.

Simply put, AP's claim that Fairey's use of the Garcia photo constitutes copyright infringement, and not fair use, can be summarized as being an entire taking of the photo, with minimal changes which add nothing to the distinctive character of the photo, and which do not serve a different purpose than the photo nor transform the photo into a new expression (since it was exactly the distinctive character of the photo that lead Fairey to copy it in the first place). Furthermore, AP claims that it cannot be said to be a comment or a criticism of any Garcia photo, since the identity of the photo and its creator was initially intentionally hidden by Fairey. (Obviously, a comment or critique about something must necessarily refer to the “thing” being commented upon or critiqued!)

AP also contends that Fairey's copyright registration certificates for his various Obama works constitute a fraud upon the Copyright Office, since he fails to acknowledge anywhere in the registration process that his illustrations are derived from a pre-existing work by Garcia. Therefore, AP claims that these registrations should be cancelled.

### Summary

At the time the lawsuit was filed by Fairey, Garcia himself had not made any claims concerning his photographs nor did he challenge AP's assertion that it owned the copyrights to the two photographs at issue. He had been previously quoted as saying to the effect that he was staying on the sidelines because he was not going to do anything to subvert Obama's presidency.

However, he subsequently changed his position, and on July 8, 2009, Garcia filed a motion with the court to intervene in the action which was granted by the court. He now claims that in fact he was always the copyright owner of both photographs, that he was never an employee of AP, and that he never agreed to transfer his copyright to AP. Specifically Garcia states that he never signed AP's freelancer contract because he did not agree to its terms.

He therefore now contends that, unless he is permitted to join the lawsuit as a party, he will be prejudiced whatever the outcome. His rationale is that if Fairey wins, Garcia will be denied his right to pursue separate claims against Fairey, and if AP wins, then AP will be the beneficiary of the copyright damages Garcia would otherwise claim.

While it is unclear at this point whether Garcia or AP is the rightful copyright owner of the two photographs in question, it is clear both contend that Fairey's actions constitute copyright infringement of whichever photograph Fairey based his posters upon. Garcia's intervention makes it more complicated, however, since the court would need to first determine who has the right, or standing, under copyright law to pursue the infringement claims in the first place.

This case has the potential for a far-reaching clarification, expansion, or even narrowing of the concept of fair use in copyright as it applies to appropriation art and how far an artist can go when using the copyrighted creation of others in the name of art. The court is being asked, in effect, to determine whether art appropriation is, or should be, a special category for fair use purposes.

From a lay person's perspective, Fairey's Obama illustration may be considered as having a transformative effect on either Garcia photo. However, that is not the legal test which, as set forth above, considers the four factors of the purpose and character of the use including transformative effect, the nature of the taking, the amount taken, and the effect on the market by the original work.

It is, of course, possible that all uses of the Obama posters will not be treated equally, since the elements added to the later ones may lead the court to reach different determinations on the fair use analysis.

Clearly, some, if not all, interested photographers believe that if a direct taking such as Fairey's appropriation

of Garcia's photo does not constitute copyright infringement, then what would? In any event the case will be watched closely by the photography and artistic community because it may determine how far someone who is, or claims to be, an artist can use an existing copyrighted photograph or other work of art, as reference for new art without crossing the line into copyright infringement.

## Endnotes

1. "The Congress shall have power . . . To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings . . ."
2. "Congress shall make no law . . . abridging the freedom of speech, or of the press . . ."
3. The Copyright Act of 1976 is contained in Title 17 of the United States Code, 17 U.S.C. §§ 101, *et seq.*
4. 17 U.S.C. § 107 Limitations on Exclusive Rights: Fair Use.
5. *Shepard Fairey and Obey Giant Art, Inc., Plaintiffs v. The Associated Press, Defendant and Counterclaim Plaintiff v. Shepard Fairey, Obey Giant Art, Inc., Obey Giant LLC and Studio Number One, Inc., Counterclaim Defendants.* S.D.N.Y., Civil Action No. 09-01123 (AKH).
6. Fairey Complaint, paragraph 18.

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# The Artifact Test Simplifies Fair Use of Entertainment Clips in Documentaries (*But It Is Not the Same as Getting Them Cleared*)

By Neil J. Rosini

Fair use is a powerful concept. It gives documentary makers leave to use others' copyrighted films and video with neither permission nor legal consequences. It can mean the difference between being on time and within budget and being months late and unprofitable. In the absence of fair use some documentaries simply would not be made.

Copyright owners usually control how their works are used, but fair use cuts a hole in that monopoly. A licensed use pays owners money, and an unauthorized fair use pays them nothing. This rule applies even to copyrighted works that entertain, like a classic science fiction film, a sporting event, or a clip of Elvis.

Since documentary producers borrow more than lend, the fair use exception is invaluable—unless they are wary of applying it incorrectly and choose to stay clear of it. However, copyright law allows a simplified approach to invoke fair use even when works of entertainment are excerpted. A motion picture that depends on fair use might not resemble another for which clearances are obtained, but fair use can save time and money for those who meet its standards. The following examples illustrate why.

## Tyler's Project

A producer named Tyler spent the last three months overseeing an ordeal of clip clearances. Tyler's documentary is about the evolving performance styles of Hollywood's leading men, from Clark Gable through George Clooney, and it contains clips from 25 films. Although Tyler and three assistants have been working 12-hour days, an on-time delivery seems unlikely.

They began by identifying the current copyright owner for each clip using Copyright Office records and other sources. Thanks to decades of corporate mergers, bankruptcies, and asset sales, this took some time. Once inquiries were made, the copyright owners, mostly studios, implied by their slow responses and overall indifference that granting clip licenses was not the most productive use of their administrative resources. On top of that, the licenses they offered were much more expensive than the budget anticipated, and some clips will have to be dropped.

Some studios demanded that Tyler assume liability for a range of costs that extend far beyond the license fee. For example, if the Screen Actors Guild (SAG) or the Directors Guild of America (DGA) requires that an actor or director be compensated for the licensed use (however brief), Tyler's production company, and not the studio,

will be on the hook. Some clip sources required that Tyler obtain appearance releases from every actor in the clip before the studio's license would even take effect. As a result, even the expense of rights-clearing personnel will be double what was budgeted, and Tyler is not sleeping well.

## Lee's Project

Another producer, Lee, is just finishing up a documentary retrospective of television's female stars that uses 50 clips of television performances. To establish that Lucille Ball had a broad physical style, Lee chose several seconds from a humdrum skit that demonstrated her physical skills, and not Lucy's funniest work. This was the minimum necessary to support the point. When Lee wanted to show that Carol Burnett relied on wigs for some of her humor, the minimum necessary to make the point was three clips from three shows, only four seconds each, with voiceover instead of synchronized sound. That was the minimum necessary to make that point visually. From there, newly shot interviews and narration made the point in words. When Lee had to illustrate that rare footage existed of another comedienne in a dramatic role, it took only eight seconds of footage and only five seconds of original audio (the rest of the visual being covered by narration) to supply the historical reference point.

Lee is not concerned about getting releases from actors depicted in the clips, dealing with studio indifference, filling out application forms, or paying huge license fees, or any license fees. Lee is simply skipping the clearance step and notwithstanding that permissions for the clips were neither requested nor obtained from studios or anyone else, Lee's exhibitor and the errors and omissions carrier that insures the project have raised no objection. Sidestepping the clearance headache, Lee has produced a film on time and within budget that is perfectly legal. Lee used fair use and Tyler did not.

## Fair Use or Not?

The quandary of documentary producers is just that—whether or not to take advantage of fair use. Follow the safer route and clear the rights, or avoid the hassle and face the risk? The answer to the question depends on the style of documentary intended as well as one's willingness to deal with fair use standards. Applying the rules of fair use *can* seem complicated thanks to a multi-part "balancing test"—that gate-keeping sphinx of the U.S. Copyright Act that declares when fair use applies. Yet parrying the riddle is simpler than many realize, mak-

ing fair use an efficient and valuable tool for documentary producers once the aesthetic effects are taken into account.

Did both Tyler and Lee use their clips the same way? Probably not. Lee's program typically would have shorter clips and a higher proportion of commentary and interviews. Do both films effectively cover the subject matter? There is no reason why they could not. Did Tyler have a good reason to pass up fair use? Before addressing that, let us survey what fair use is, and what it is not, in borrowing entertainment footage for documentaries.

## The Simplified Test

The purpose of copyright is to benefit not just authors but also the whole of society: "To promote the Progress of Science and useful Arts," as delineated in Article I, Section 8 of the U.S. Constitution.<sup>1</sup> Toward that end, the copyright monopoly exists for a limited term (currently, the life of the author plus 70 years)<sup>2</sup> to give authors a financial incentive to create.<sup>3</sup> Fair use cuts into that monopoly in a *limited* way during the copyright term.

Copyright law promotes fair use treatment for a variety of purposes including criticism, comment, scholarship, research, teaching, and news reports, which are all singled out in the Copyright Act.<sup>4</sup> Yet even for those categories, the law requires that a balancing test be applied to distinguish a *fair* use from an indefensible infringement.<sup>5</sup> The four-part test helps determine whether the owner's usual monopoly over control of a copyrighted work should give way to the ultimate purpose of copyright law and benefit society as a whole. If so, fair use defends the borrower; if not, the borrower is an infringer.

The first part of the test is an appraisal of the purpose and character of the taking, in which commercial uses like advertising are shunned and "transformative" uses win points. "Transformative" borrowings are said to add "something new, with a further purpose or different character, altering the [borrowed work] with new expression, meaning or message."<sup>6</sup>

The second factor to be balanced is the nature of the work being borrowed from. Works of the imagination like scripted television shows and feature films do not lend themselves to fair use as readily as scholarly and fact-based endeavors.<sup>7</sup> This works against borrowings of entertainment footage, but it is only one factor out of four.

Next comes the amount and substantiality of what's taken from the borrowed work in both quantity and quality compared to the borrowed work as a whole. Taking the qualitative "heart" of the original work is discouraged even if quantitatively small.<sup>8</sup>

Last comes an assessment of the effect of the unauthorized taking on the value in the marketplace of the borrowed work. This part of the test asks: What economic value is left for the owner of the borrowed work should the taking in question become widespread?<sup>9</sup>

In case decisions, each factor is usually addressed in turn and either the borrower or the copyright owner is declared the winner of the round, although assessments of "transformativeness" and economic effect are often given greatest weight. The litigant with the most points—either the fair-use borrower or the copyright owner—wins the match.

The problem lies in predicting the outcome of close contests where the four factors seem better calibrated to show gray zones than black-and-white answers. Critics lament the chilling effect exerted by this vagueness over law-abiding producers who choose to forgo the benefits of fair use rather than guess incorrectly and lose a lawsuit. To address this concern, attention has been given in recent years to formulating "best practices" for documentary makers that might come to be recognized as industry norms and encourage more fair use.

The *Documentary Filmmakers' Statement of Best Practices in Fair Use* (the "Statement"),<sup>10</sup> which is endorsed by a number of media groups, defined four kinds of situations that favor fair use treatment:

1. Employing copyrighted material as the object of social, political, or cultural critique;
2. Quoting copyrighted works of popular culture to illustrate an argument or point (e.g., clips from fiction films to demonstrate changing attitudes about race);
3. Capturing copyrighted media content in the process of filming something else (for example, posters on a bedroom wall, or music playing on a kitchen radio); and
4. Using copyrighted material in a historical sequence (to "represent history to new generations of citizens").

The Statement accompanies each situation with a set of limitations to be borne in mind. The result is easier than what the Copyright Act offers, but not exactly simple.

Another approach is to avoid close calls by identifying and applying a least common denominator across the four factors that will give fair-users the strongest position. How simply can that standard be stated? For creators of documentaries and news reports taking footage from others, a practical rule of fair use can be reduced to this:

If the material for which a fair-use defense is sought is limited by the borrower in length and quality to the minimum needed to show the **mere existence** of the **subject matter** of the borrowed work, or the mere existence of the **borrowed work itself**, the use is probably fair, and if not, probably not.

Call this the Artifact Test. Fair use treatment is most accessible when the borrowed bits from works are employed as "artifacts" to show that the subject matter

depicted in them exists, or that the filmed or recorded record exists, and no more. It cuts agnostically across categories of borrowed movies and video, but when the borrowed work is meant to entertain, the Artifact Test needs a corollary:

*If borrowing is intended not only to inform but also to entertain by giving the viewer an opportunity to sit back and enjoy the entertaining effect that the borrowed work was intended to produce for its original audience, then no fair-use defense is likely.*

To pass the Artifact Test, the borrowed work of entertainment has to be used as a mere artifact. Using it to entertain—the same purpose it originally satisfied—is not likely to be “fair.”

### Applying the Artifact Test

The basis for this slimmed-down test lies in several case decisions that demonstrate how a simplified approach can work for the benefit of documentary makers. One of them comes from a 2003 Ninth Circuit case, *Elvis Presley Enterprises, Inc. v. Passport Video*.<sup>11</sup>

The defendants produced and sold a 16-hour video documentary about Elvis Presley called *The Definitive Elvis*. They were sued by a posse of copyright holders, including Elvis Presley Enterprises and others, with rights in footage of Elvis’s performances that appeared in the documentary without permission. Borrowed clips were used in a variety of ways. In some instances, they were relatively brief and accompanied by audio commentary. In other instances, clips ran for more than a minute without interruption, such as an excerpt that included “the heart” of Elvis’s “famous ‘Hound Dog’ appearance.” In the aggregate, the excerpts comprised a “substantial portion” of Elvis’s total appearances on many television shows in which the plaintiffs owned the copyrights, including almost all of Elvis’s appearances on *The Steve Allen Show* and about one-third of his appearances on *The Ed Sullivan Show*. The defendants invoked fair use and lost.

The court acknowledged that it would be “impossible to produce a biography of Elvis without showing some of his most famous television appearances for reference purposes,”<sup>12</sup> and that clips from those television shows *could* be used without authorization as “historical reference points in the life of a remarkable entertainer” or to “note their historical value.”<sup>13</sup> (Accordingly, the filmmaker should be able to show that the subject matter existed—e.g., the young, smoldering Elvis, or the older gaudily dressed Elvis—or the existence of a home movie of Elvis’s performance as a teenager, long thought to be lost.)

The court also acknowledged that Elvis’s television appearances were “newsworthy events,”<sup>14</sup> a favored category that tends to support fair use. Yet according to the judges, many of the clips were used in excess of the “benign purpose” of a biography<sup>15</sup> and simply were included to profit “at least in part from the *inherent en-*

*tertainment value* of Elvis’ appearances.”<sup>16</sup> Clips that ran without much interruption offered “the same intrinsic entertainment value” protected by the plaintiffs’ copyrights, with the result that their use was not sufficiently “transformative.”<sup>17</sup>

The producer flunked another part of the fair use test by failing to copy only “as much as necessary for his or her intended use.” Instead, in many instances the documentary included the “heart of the work”—the most valuable parts. Further, with its emphasis on entertainment, the documentary served the same purpose in the marketplace as the plaintiffs’ original works. In short, all four parts of the fair-use balancing test favored the plaintiffs.

In reaching this result, the court distinguished two Southern District of New York fair use decisions in which the defendants had prevailed. In *Monster Communications, Inc. v. Turner Broadcasting System, Inc.*,<sup>18</sup> video footage used in a biography of Muhammed Ali for less than two minutes was a defensible “combination of comment, criticism, scholarship and research” concerning “a figure of legitimate public concern” and protected by fair use. In *Hofheinz v. A&E Television Networks*,<sup>19</sup> a clip from a copyrighted science fiction film used in a biography of the actor Peter Graves was a fair use because it did not “recreate the creative expression” (that is, the core entertainment value) in the plaintiff’s film. Instead, it helped the viewers understand “the actor’s modest beginnings in the film business.” On top of that, it was accompanied by narration that placed it in context. In both cases, the borrowed clips were nestled in commentary, the documentaries did not take much entertainment value, and relatively little from the originals was copied.

In addition to the Elvis decision, there is further support for the Artifact Test. For example, in *Bill Graham Archives v. Dorling Kindersley Limited*,<sup>20</sup> which involved an illustrated history of the rock group The Grateful Dead, the Second Circuit allowed the fair use defense where the plaintiff’s posters were reproduced in miniature in a collage of text and images. The court explained that the posters appeared “as historical *artifacts* to document and represent the actual occurrence,” and thereby qualified as fair uses. This appears to be the first case to characterize such uses as “artifacts.”

### But a Cleared Use Is Still Different

The Artifact Test may make applying the fair-use defense easier in the case of borrowed footage, but it is important to remember that a documentary that relies on fair use extensively will differ from another for which footage is cleared by license. For one thing, there is almost always going to be *some* mystery about the outcome of a fair-use dispute. Although clearing footage with copyright owners costs time and money, once licenses are obtained, they usually offer bulletproof shields against



lawsuits.<sup>21</sup> Fair use even when conservatively applied is not as certain as a license.

Another drawback of the Artifact Test—and of fair use itself—is that a finished documentary full of fair-use clips usually will differ aesthetically from one based on cleared footage. The Artifact Test tells us why: The clips need to be brief, focused on the existence of the footage or its content, and not a collection of “the best of” anything. The resulting documentary will be heavy on comment and analysis and light on borrowed entertainment value. To be entertaining, a documentary full of fair-use borrowings will have to pull its own weight.

Documentaries that are meant to depict rather than talk about the highlights of an entertainer’s career will not be terribly entertaining if they rely on fair use. This is why Tyler decided to clear all borrowed clips notwithstanding the travails that choice brought on. Once Tyler chose to present a series of *performances* for the audience to compare and enjoy for their entertainment value, there was little alternative to obtaining licenses from owners of the borrowed clips. While it theoretically may be possible (and not probable) to create that kind of documentary by using clips solely on the basis of fair use, such a venture would be risky and certainly not fit within the scope of the Artifact Test.

In contrast to Tyler’s production, many documentaries are conceived to serve up critical analysis rather than entertainment. They will profit the most from fair use privileges, and Lee’s retrospective fit this mold.

In each instance, Lee carefully took no more than the minimum required to show the mere existence of the content in the borrowed work, without inviting the audience to enjoy the performances. Instead, the documentary’s value came from the entertainment and information provided by interviews and narration. Was Lee’s documentary any less entertaining than Tyler’s? Not necessarily, but to the extent there was entertainment, Lee had to create it. Tyler—for the most part—obtained it by license from others.

Although our focus has been the use of clips from works of entertainment, fair use may be applied to all sorts of copyrighted works under the right circumstances, including still photos, music, and graphic works. The rules applicable to those categories, however, vary somewhat from those applicable to film clips and call for separate treatment.

## A Fair Conclusion

The law may not always be as it is today. Copyright activists argue that fair use should be liberalized for society’s benefit, commensurate with the boon to copyright owners conferred by extension of copyright’s term by 20 years. However, no one should count on making another *That’s Entertainment* at any time soon without clearing the clips.

For now, the Elvis case and others show that documentary producers can rely on fair use if they use clips from entertainment works only as reference points—to show that the content of the clips exists or the clips themselves exist—and frame them in a discussion of their context and significance. Moreover, when performances are involved, their effect as “pure entertainment” should be minimized by taking as little as possible to support the point being made and—for the most part—by leaving the best bits behind.

## Endnotes

1. See *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 575–576 (1994).
2. 17 U.S.C. § 302(a).
3. See, *Mazer v. Stein*, 347 U.S. 201, 219 (1954).
4. 17 U.S.C. § 107.
5. See, e.g., *Campbell*, 510 U.S. at 584; *American Geophysical Union v. Texaco, Inc.* 60 F.3d 913 (2d Cir. 1994).
6. *Campbell*, 510 U.S. at 579, quoting Leval, *Toward a Fair Use Standard*, 103 Harv.L.Rev. 1105, 1111 (1990).
7. See, e.g., *Campbell*, 510 U.S. at 586.
8. *Id.* at 587; *Harper & Row v. Nation Enterprises*, 471 U.S. 539, 564–566 (1985).
9. *Campbell*, 510 U.S. at 590.
10. American University Center for Social Media, American University Washington College of Law (2005), [http://www.centerforsocialmedia.org/resources/publications/statement\\_of\\_best\\_practices\\_in\\_fair\\_use/](http://www.centerforsocialmedia.org/resources/publications/statement_of_best_practices_in_fair_use/) (May 15, 2009).
11. 349 F.3d 622 (9th Cir. 2003).
12. 349 F.3d. 629.
13. *Id.*
14. 349 F.3d. 630.
15. 349 F.3d. 629.
16. 349 F.3d. 628 (emphasis added).
17. 349 F.3d. 629.
18. 935 F. Supp. 490 (S.D.N.Y. 1996).
19. 146 F. Supp. 2d 442 (S.D.N.Y. 2001).
20. 448 F.3d 605, 613, 615 (2d Cir. 2006).
21. Provided that the use does not exceed the terms of the license.

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**This article should not be construed as legal advice, which will depend on individual facts and circumstances. Also, bear in mind that the rules can be different for foreign distribution.**

# Soup Can or Can of Worms? Legal Issues Arising from the Warhol Estate

By Carol Heckman

## Background

Andy Warhol was perhaps one of the most notorious and productive artists of our time. He has recently been dubbed the “unquestioned star of the New York contemporary art sales,” with more than 43 works breaking the \$1 million barrier.

Warhol died unexpectedly in 1987 following gall bladder surgery, leaving his assets in turmoil and his business affairs in disarray. His estate contained a vast array of holdings, based on his life as a collector, compulsive shopper and prolific artist. These assets included over 75,000 pieces of his own art work, his personal art collection, antique furniture and jewelry, his films, his diaries, real estate partnerships, the profitable magazine *Interview*, trademark and licensing agreements, and a stock and bond portfolio. Warhol’s will provided that the bulk of his assets would go into the Andy Warhol Foundation for the Visual Arts (the Foundation).

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*“Many of those disputes found their way into the courts, and raised important legal issues in virtually all aspects of art law.”*

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Warhol’s executor was Frederick Hughes, a close business advisor of Warhol for over 20 years. Hughes retained Edward Hayes as counsel for the estate. Hayes was a well-known criminal and civil litigator who was the model for a character in the best-selling book, *Bonfire of the Vanities*. Hayes devoted himself full-time to the Warhol estate, giving up his law practice and moving into the Factory, Warhol’s art studio and office. As the years unfolded, Hughes, Hayes and The Foundation were often at odds with one another and with third parties.<sup>1</sup> Many of those disputes found their way into the courts, and raised important legal issues in virtually all aspects of art law. Discussed below are some of the important cases and the issues that they explore.

## I. Valuation Issues

The day after Warhol’s death, Hayes entered into a fee arrangement with Hughes, providing for a fee of 2.5 percent of the gross estate, which was then estimated to be worth approximately \$100 million. Five weeks later, when it was learned that the estate’s value was significantly higher than anticipated, Hayes reduced his compensation to 2 percent of the gross estate. A year later, the fee agreement was amended yet again to pay Hayes an executor’s commission which was somewhat greater than the once adjusted fee of 2 percent.<sup>2</sup>

In the first four years of administering the estate, Hayes received advances of \$4.85 million under the retainer agreement. These payments were approved by the Surrogate’s Court at the time they were made. While this amount at first blush seems high, Hayes, at Hughes’s request, agreed to devote his entire practice to the Warhol estate. This meant that Hayes was available around the clock and concerned himself exclusively with estate issues, which covered a broad spectrum of tasks. During the estate’s administration, sales of Warhol’s art alone totaled \$32 million. Hayes also entered into contracts to sell a number of the Warhol assets, avoided a will contest by Warhol’s brothers, defended claims of ownership regarding Warhol’s art and real property, and represented the estate during disputes over the pension fund, income tax issues, collection of insurance for art loss by the Museum of Modern Art, customs duty claims for overseas assets, and a claim brought by Bianca Jagger in England concerning the ownership of the rights to Warhol’s diaries. In addition, Hayes successfully negotiated with the Museum of Modern Art for a retrospective of Warhol’s art and with Sotheby’s for a series of auctions of Warhol’s collectibles, a series which resulted in sales of over \$25 million. Hayes’s efforts were described as “pivotal” in securing Warhol’s stature in the estate’s assets throughout the administration of the estate.<sup>3</sup>

In November of 1989, Hughes appointed Archibald Gillies as President of the Foundation. Over time, significant conflicts developed among Gillies, Hughes and Hayes, leading ultimately to Hayes’s termination as counsel for the estate. For example, Gillies accused Hayes of bungling several transactions, including the sale of *Interview* magazine and the licensing agreement with Schlaifer Nance (*see* section VI, *infra*). Hayes’s efforts to collect the balance of his fee under the retainer agreement were opposed by the Foundation, and ultimately caused his financial ruin.

Although there was subsequent litigation as to the amount of that fee (*see* section II, *infra*), the first hurdle was to establish the estate’s value. This was an obstacle in and of itself, as it has been recognized that the value of any art collection is “inherently imprecise and capable of resolution only by a Solomon-like pronouncement.”<sup>4</sup> In this case, both the executor and the executor’s attorney had an incentive to place a high value on the estate because both were to be paid a percentage of its value. The Foundation, in contrast, wanted a lower value, because it had to donate 5 percent of the estate’s assets every year in order to comply with tax rules governing foundations. The Foundation settled with Hughes out of court, in an

arrangement that included both cash and valuable art. The dispute with Hayes could not be settled, reportedly due to the deep hostility between Hayes and Gillies.

Six-hundred million dollars separated the parties. All agreed that the value of the art should be determined as of the date of the transfer of the art from the estate to the Foundation (February 1, 1991) and should be determined in accordance with “the price at which property would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or sell and both having reasonable knowledge of the relevant facts.”<sup>5</sup> The parties also agreed as to the precise artworks within the inventory. The inventory included 4,118 paintings, 5,103 drawings, 19,086 prints, and 66,512 photographs. The Foundation relied upon an appraisal done by Christie’s Appraisals, Inc. (Christie’s).<sup>6</sup>

The Surrogate’s Court initially criticized the Christie’s appraisal for its failure to contain research regarding the marketability of Warhol’s art. The court noted that no one at Christie’s discussed Warhol’s art with contemporary art dealers, museum officials, or others to inform themselves of Warhol’s position in the existing art market. The court also accused Christie’s of failing to consider Warhol’s importance as an artist, as well as his staying power and marketability. Perhaps the most glaring error in Christie’s valuation was its failure to consider comparable sales. Christie’s did consider some of its own auction sales and some of Sotheby’s, but it was selective in considering these sales, and it completely ignored many sales consummated by other auction houses. The court found that such a limited focus was inadequate, considering the availability of this other sales information and that dealer, auction, and private sales should have all been considered in creating the valuation. On the other hand, experts presented by Hayes were criticized by the court for concentrating unduly on retail sales, which often inflate values.<sup>7</sup>

Another critical flaw in the Christie’s appraisal was the presence of a fairly obvious conflict of interest. At the same time that Christie’s was doing its appraisal, it was also negotiating with the Foundation regarding the auctioning of Warhol art objects. The court found that Christie’s had a conflict in seeking future business from the Foundation at the same time it was retained to render an impartial appraisal of the collection.<sup>8</sup>

Furthermore, there was an issue regarding valuation, and whether to apply a blockage discount. As fair market value must be determined as of the date of transfer from the estate to the Foundation, it was necessary to decide whether an entire block of art could be sold immediately without depressing the market. The proper assumption, according to the court, was that the buyer would sell the artwork over the period of time that would produce maximum value, rather than from a forced or immediate sale. In most situations, however, this process would result in a discount from total unit value.<sup>9</sup>

The court’s discussion of the discount rate included reference to cases involving two other prominent artists: David Smith (where a discount rate of 37 percent was applied) and Georgia O’Keeffe (where a limited discount of 50 percent was applied). Accordingly, the court then applied different discount rates, depending on the type of artworks. Thus, for photographs, the court applied a discount of 20 percent; for paintings, sculpture and collaborative work, 20 percent; for drawings, 50 percent, and for prints, 30 percent.

The court concluded that the total estate valuation on the transfer date was \$390,979,278. Including non-art assets, the fair market value of the gross estate was \$509,979,278.<sup>10</sup>

## II. Attorney’s Fees

With the value of the estate established, the next step was to set Hayes’s attorney’s fees. In 1995, the Surrogate’s Court found that Hayes’ retainer agreement was unenforceable because it contained no ceiling or limiting provision.<sup>11</sup> However, recognizing the value of Hayes’s services as counsel for the estate, the court conducted an independent evaluation and concluded that the services were worth \$7.2 million. This opinion was based in part on the view that Hayes’s services were akin to those of an executor, and not merely legal in nature. The award of \$7.2 million in attorney’s fees was well in excess of the roughly \$2.5 million that Hayes expected to receive under the initial retainer agreement, but in light of the subsequent valuation of the estate by the Surrogate’s Court, the award of fees was considerably less than the sum to which he was entitled under the most recent retainer agreement.

The issues were bitterly fought. Upon appeal, the Appellate Division reduced the valuation of Hayes’s services from \$7.2 million to \$3.5 million.<sup>12</sup> The court disagreed with the lower court’s analogy to services of an executor, noted that Hayes was not a specialist in the relevant field and found that the fee award would result in his being compensated at an “exorbitant hourly rate.”<sup>13</sup>

Ironically, the effect of the Appellate Division’s judgment in 1996 was that Hayes then owed the estate \$1.85 million from the \$4.85 million that he had previously been advanced. The estate assigned this judgment to the Foundation on August 2, 1996. Within days, Hayes filed for bankruptcy.

The stage then turned to bankruptcy court litigation. The Foundation sought to assert that the debt owed by Hayes to the estate was non-dischargeable in bankruptcy, alleging that Hayes had committed “fraud or defalcation” while acting in a fiduciary capacity. The bankruptcy court held that Hayes had not acted in a fiduciary capacity within the meaning of a relevant portion of the Bankruptcy Code, and thus did not reach the question of whether

his debt resulted from a defalcation. The District Court affirmed.<sup>14</sup>

In yet another twist in the litigation, the Second Circuit reversed.<sup>15</sup> After an extensive discussion of rather complex legal issues, the court agreed with the Eighth Circuit in holding that the attorney-client relationship, without more, constitutes a fiduciary relationship within § 523(a)(4) of the Bankruptcy Code.<sup>16</sup> The court then proceeded to find that Hayes committed a defalcation under the Code. It noted that the value of his services was irrelevant to the fees he sought, there was no cap on fees, and Hayes expected periodic payments to be made without regard to the value of past or future services. The court found this to be inconsistent with Hayes's obligation to deal fairly with the estate in establishing a fee arrangement. Instead, fees were matched to the art market. The court thus found that his conduct was sufficiently at odds with his fiduciary obligations to constitute a defalcation within the meaning of § 523(a)(4) of the Bankruptcy Code.

### III. Trademark Issues

Warhol's vast collection of artwork includes numerous examples of depictions of well-known consumer goods. Perhaps his most famous are his Campbell's soup cans, which represent images of readily identifiable trademarks. Do these depictions violate either state or federal trademark law? Probably not, because Warhol did not use the trademark names to identify the source of the artwork. Without using the mark name to identify the artwork's source, Warhol did not imply that Campbell's endorsed the works.<sup>17</sup>

Early on, Warhol's estate and the Foundation did not shy away from initiating trademark infringement litigation. For example, in *Hughes v. Plumsters, Ltd.*,<sup>18</sup> the Foundation and the estate sued a company marketing a t-shirt bearing the name of Andy Warhol with the assertion that Andy Warhol, as a name, had established trademark rights. The defendant claimed that the t-shirt was a parody of Warhol's works, which would preclude any potential trademark infringement liability, even if likelihood of confusion were proven. The court in *Plumsters* held that there was a jury question regarding any likelihood of confusion as to who created the t-shirt.<sup>19</sup>

*Hughes v. Design Look, Inc.*<sup>20</sup> represented another aggressive attempt by the estate to assert intellectual property rights. However, the estate and the Foundation were unsuccessful in obtaining a preliminary injunction that would have prevented the defendant's production of a calendar with images created by Warhol, but which were no longer owned by the estate. The preliminary injunction application was denied because the plaintiffs did not show likelihood of success on the merits, failed to show secondary meaning, and conceded that the works were not protected by copyright or trademark.

In *Andy Warhol Enters., Inc. v. Time Inc.*,<sup>21</sup> the estate likewise failed to obtain a preliminary injunction against Time Inc. in a trademark infringement action for use of a section heading entitled "Interview" in its *Time* magazine. As mentioned above, *Interview* was a magazine founded by Andy Warhol, which ultimately went into his estate. *Interview* was registered by Warhol as a trademark with the U.S. Patent and Trademark Office. However, the court found that the estate had not shown any likelihood of confusion, because the *Interview* mark and the "Interview" word, as used in a heading for the magazine, did not look alike and were not used in the same fashion. The court also found that the defendant would be entitled to the fair use defense because it was not using the word "Interview" as a mark, but rather to designate a section in its magazine. Finally, the court denied the plaintiffs' claim under the New York State anti-dilution statute because the mark was not distinctive enough to support a dilution claim.

### IV. Misappropriation of Images

The estate was not always the initiator of litigation. In *Dauman v. Warhol Found. for the Visual Arts*,<sup>22</sup> the Foundation, the estate, and the museum found themselves as defendants, again involving use of an image. The allegation of the plaintiffs, photographer Henri Dauman and Time Inc., was that the defendants unlawfully appropriated an image of Jacqueline Kennedy taken in 1963 at John F. Kennedy's funeral.<sup>23</sup> These images were later featured in the December 6, 1963 issue of *Life* magazine. Specifically, the plaintiffs alleged that Warhol used eight source images from newspapers and magazines, including the image from the funeral, to create silk screens which were used in turn to create the famous Warhol series on Jacqueline Kennedy. In the court's decision, a motion to dismiss the complaint was denied. The case was later settled for an undisclosed amount that a lawyer involved in the case put at "several hundred thousand dollars." The Jackie series, the basis for the litigation, continues to command top dollar in the contemporary art market, most recently selling for \$15.6 million at a Christie's auction in November of 2006.

### V. Insurance

The dispute over the Jacqueline Kennedy photograph also gave rise to important insurance coverage litigation in the Second Circuit. As discussed above, when Dauman and Time Inc. filed a copyright infringement suit against the Foundation and the estate for use of the photograph of Jacqueline Kennedy, both Warhol entities claimed insurance coverage. The insurance company refused coverage on the basis that it had not been given timely notice.

In 1994, the photographer wrote a letter to Warhol's estate advising that he would likely bring a lawsuit against it unless a monetary resolution could be achieved. Warhol's estate did not give notice of the threatened claim to its insurance carrier until two years later, when the ac-

tual suit was brought. The Second Circuit, following New York law and quoting Henry Wadsworth Longfellow, held that Time, Inc.'s claim was different than the photographer's claim. The photographer could not, and did not, speak for Time, Inc. when he wrote the 1994 letter regarding notice of suit. By the same token, he could not, and did not, assert a claim on behalf of Time, Inc. Accordingly, notice of Time, Inc.'s claim was timely under the policy.<sup>24</sup>

## VI. Licensing Issues

The licensing of Warhol t-shirts was a lucrative business. In 1987, the estate entered into an exclusive licensing arrangement with Schlaifer Nance and Company, Inc. (SNC) to use and license others to use reproductions and copyrighted works of art created by Warhol, along with associated trademarks in connection with various products. SNC was the developer of the Cabbage Patch Kids program. In connection with that program, SNC had commissioned Andy Warhol to do portraits of four Cabbage Patch dolls. Early discussions had occurred prior to Warhol's death, but the final licensing agreement was dated November of 1987. This licensing agreement spawned extensive litigation.

In 1990, SNC sued the estate in federal court, alleging that the estate had breached its licensing agreement and engaged in tortious conduct. SNC also brought an arbitration claim based on a limited arbitration clause in the agreement. At the heart of the arbitration was the Foundation's 1989 agreement with the Dia Art Foundation and the Carnegie Institute to establish the "Andy Warhol Museum." The museum agreement allegedly violated rights granted to SNC under its licensing agreement, including the exclusive right to produce and sell licensed products, the right to register, own and use the trademark "Andy Warhol Museum," and the right of first refusal. In June of 1991, the arbitrators awarded \$4 million to SNC, including punitive damages, finding that the estate not only breached the licensing agreement, but also conducted itself in bad faith by unreasonably rejecting products and failing to cooperate and assist in promoting the licensing program. The estate paid the arbitration award in full.

The remaining claims concerning the agreement were litigated in federal court. The court in the first reported case, *Schlaifer Nance and Co., Inc. v. Estate of Warhol*,<sup>25</sup> denied the estate's motion for summary judgment, finding that the claims in arbitration were in fact distinct from the claims in federal court proceedings. In 1995, the court in *Schlaifer Nance and Co., Inc. v. Estate of Warhol*,<sup>26</sup> denied the defendant's motion to dismiss the common law fraud claims, which comprised the only claims left remaining in the action. They accused the defendants of fraudulently inducing SNC to enter into a licensing agreement with the estate, alleging that the estate misrepresented itself as the sole owner of certain rights to Warhol's works. The claims also alleged that the estate fraudulently maintained that it would continue to have the exclusive right to transfer its rights to SNC, that those rights did not infringe upon the

rights of third-parties, and that neither Warhol nor the estate had granted similar rights to anyone other than SNC.

The case went to trial in June of 1995. After seven days, the jury returned a verdict in favor of SNC, finding that all three defendants had fraudulently induced SNC to enter into a licensing agreement with the estate.<sup>27</sup> The jury awarded punitive damages for \$1 million against all three defendants. The compensatory damage award of \$63,943 was relatively modest.

The trial court, however, set aside the jury verdict. On appeal, the Second Circuit, in *Schlaifer Nance and Co., Inc. v. Estate of Warhol*,<sup>28</sup> affirmed the lower court's decision. The court found that there was no question that the estate misrepresented its position in assuring SNC that it controlled all rights to Warhol's works when clearly it did not. These misrepresentations included failure to disclose a prior agreement for the exclusive production of watches and the claim of art dealer Ronald Feldman to reproduction rights of certain works published in collaboration with Fotofolio.

Nevertheless, the Second Circuit found that it was unreasonable for SNC, a sophisticated licensing company, to rely on the estate's representations without verifying them. The agreement, along with the estate's actions and other circumstances, "should have raised more than one eyebrow," compelling SNC to conduct further investigation.<sup>29</sup> Even before Warhol's death, SNC was informed that he did not own the copyrights to all of his images. Furthermore, the sheer magnitude of the body of his works made it difficult to keep all of them out of the public domain. In addition, because Warhol spent a significant portion of his career as a commercial artist, he often sold the rights to commissioned works to his clients, thereby surrendering any copyrights that he may have otherwise owned. Where a commercial artist's work is made for hire, the rights rest with the employer or person for whom the work is prepared. SNC could not even rely on ignorance as an excuse, because it had previously hired a copyright attorney who helped explain the copyright issues.

However, the litigation did not end there. Having succeeded in overturning the jury award, the estate's lawyers launched an offensive attack on SNC. In 1998, the District Court awarded sanctions against SNC and its attorneys for prosecuting a meritless claim in bad faith.<sup>30</sup> The court found that it was clear from the outset that SNC and its lawyers could not prove reasonable reliance upon the estate's representations, yet they pursued fraud claims nonetheless. The Court held that SNC and its lawyers knew that the estate could not possibly own all the copyrights to all of Warhol's works because, as discussed above, many had already fallen into the public domain and the copyrights to certain others had been granted to third parties. Without conducting any due diligence or

engaging in any worthwhile investigation, SNC nevertheless entered into the licensing agreement.

On appeal, this decision favoring the estate was reversed.<sup>31</sup> The Second Circuit found that the estate failed to show that SNC's action lacked a "colorable basis" or that SNC acted in bad faith. The court further found that the estate itself had unclean hands because it had engaged in some outrageous and deceptive conduct. Holding that the judgment as a matter of law granted against SNC's claim was a necessary but not a sufficient condition for finding a total lack of a colorable basis, the Second Circuit went on to point out the facts that supported SNC's case. These included the jury finding in favor of SNC, the opinion letter issued by the estate vouching for the *bona fides* of the estate's copyrights, and the pre-agreement evidence regarding lack of copyrights. These facts, taken together, provided a colorable basis for SNC's claim.

On the state court front, a sublicensee of SNC, Artwear, sued the estate to recover damages arising out of the estate's refusal to approve any of its products for distribution under the sublicense agreement.<sup>32</sup> Under the licensing agreement between the estate and SNC, the estate could not unreasonably withhold approval of a product. In contrast, under the sublicense agreement, approval could be withheld in SNC's sole discretion in conjunction with the estate. Unfortunately for Artwear, by the time the sublicense agreement was entered into, the relationship between SNC and the estate had deteriorated and none of Artwear's products were ever approved. Artwear's complaint was dismissed by the state Supreme Court and that dismissal was affirmed by the Appellate Division. The court held that Artwear was not a third-party beneficiary of the licensing agreement, that as a subcontractor it had no claim for intentional interference with contractual rights, and that it could not sue the estate for breach of the licensing agreement to which it was not a party.

## VII. Authentication Issues

As the Warhol estate has proven, the value of some art pieces can be astronomical. With such a high demand for quality art, replicas, fakes and forgeries invariably find their way into the marketplace. In fact, an estimated 10 percent of all art transactions contain these unauthentic works, which undoubtedly fool many unsuspecting customers into paying far too much.

Given this, it is not surprising that unhappy purchasers look for remedies when authenticity issues arise. Relief may be found for these buyers under common law tort or contract doctrines, in addition to any state laws<sup>33</sup> regarding the sale of counterfeit goods. For example, a buyer may recover from the seller using a common law tort action for fraud, the proof for which varies among each state.<sup>34</sup> If a potential buyer wishes to rescind a contract involving an unauthentic work, he or she may do so

on the grounds of misrepresentation. Another basis for recovery lies in the doctrine of mutual mistake.<sup>35</sup>

With the presence of so many forged works in the art market, many art experts are reluctant to give an opinion regarding a work for fear of potential litigation if they are wrong. They are also concerned about potential damage to their reputations if they provide opinions that are at odds with other experts. Perhaps the best illustration of this predicament comes from the early case of *Hahn v. Duveen*.<sup>36</sup> Here, an expert opined that the plaintiff's painting lacked authenticity. The plaintiff asserted that these comments caused a museum to cancel its plans to purchase the painting. Although the expert claimed that his statements were protected under a "fair comment" defense, the case ultimately settled outside of court for a sum of \$60,000.

A case regarding authentication issues involving Warhol is currently pending in the U.S. District Court for the Southern District of New York.<sup>37</sup> In this action, Joe Simon-Whelan, the owner of an alleged Andy Warhol art piece that Simon-Whelan himself affectionately dubbed "Double Denied,"<sup>38</sup> is seeking \$20 million in damages from the Foundation.

Simon-Whelan claims that the Foundation, the entity that authenticates true Andy Warhol works, refused to authenticate an alleged true Warhol piece in an attempt to artificially inflate the prices of the Warhol works that the Foundation itself owns and sells. Of note is the fact that "Double Denied" has a note written on one of its edges by Hughes, executor of the Warhol estate, which states: "I certify that this is an original painting by Andy Warhol completed by him in 1964." Other evidence in support of the authenticity of "Double Denied" includes letters written by Billy Name, a photographer who worked closely with Warhol. On May 26, 2009, the District Court dismissed the plaintiff's antitrust claims and Lanham Act claim, but allowed the case to proceed on all other claims. It will be interesting to see how the court rules if it finds malicious intent (due to knowledge of falsity or reckless disregard for the truth), or that the Foundation was not reviewing the proposed works with the normal duty of care expected from the art expert professional.

Another case involving similar issues is pending in state court in Brooklyn. The plaintiff, an artist and former Warhol assistant, claims to have created 320 silk screens of the artist John Chamberlain without Warhol's knowledge, 315 of which were later incorporated into Warhol-like silk screens ("315 Johns"). Chamberlain allegedly sold the works as genuine Warhols, citing a 2000 opinion by the Warhol Art Authentication Board as proof of their authenticity. In a recent decision, the court allowed the plaintiff's claim to go forward to trial, refusing to recognize the Authentication Board's decision as conclusive.<sup>39</sup>

## Conclusion

The many issues surrounding this colorful artist's estate have been vigorously litigated in a variety of state and federal courts and in arbitration. The twists and turns in these cases provide personal drama, to be sure. In addition, the resulting precedents—still good law—provide a survey of many of the most important topics in art law.

## Endnotes

1. Paul Alexander, *Death and Disaster: The Rise of the Warhol Empire and the Race for Andy's Millions*, 1994, Villard Books.
2. An executor's commission is fixed by statute and is calculated on a sliding scale, ranging from 2.5% to 5% for the first \$5 million and 2 percent for all amounts over \$5 million. N.Y. Sur. Ct. Proc. Act § 2307(1) (2008). Under this latter agreement, the value of the assets of the estate was measured as of the date of distribution, rather than the date of death.
3. *In re Estate of Warhol*, 165 Misc. 2d 726, 734, 629 N.Y.S.2d 621, 625 (Sur. Ct., N.Y. Co. 1995).
4. *In re Estate of Warhol*, 1994 N.Y. Misc. LEXIS 687 (Sur. Ct., N.Y. Co., 1994) (quoting *Morris M. Messing*, 48 T.C. 502, 512 (T.C. 1967)).
5. *Id.* at \*2 (citing *Treas. Reg. § 20.2031-1(b)* (1965)).
6. *Id.* at \*11.
7. *Id.* at \*6–10.
8. *Id.* at \*11–12.
9. *Id.* at \*13–14.
10. *Id.* at \*31.
11. *In Re Estate of Warhol*, 629 N.Y.S.2d 621 (Sur. Ct. 1995).
12. *In re Estate of Warhol*, 224 A.D.2d 235, 637 N.Y.S.2d 708 (1st Dep't 1996).
13. *Id.* at 224 A.D. 2d at 237, 637 N.Y.S. 2d at 710.
14. *Andy Warhol Found. for the Visual Arts, Inc. v. Hayes (In re Hayes)*, 1998 U.S. Dist. LEXIS 2871, at \*1 (S.D.N.Y. March 11, 1998).
15. *Andy Warhol Found. for the Visual Arts, Inc. v. Hayes (In re Hayes)*, 183 F.3d 162 (2d Cir. 1998).
16. *Id.* at 170 (citing *Tudor Oaks Ltd. Pshp. v. Cochrane (In re Cochrane)*, 124 F.3d 978, 984 (8th Cir. 1997)).
17. *See Lord Simon Cairns v. Franklin Mint Co.*, 107 F. Supp. 2d 1212 (C.D.CA. 2000).
18. 1989 U.S. Dist. LEXIS 16452, at \*1 (N.D.CA. Aug. 28, 1989).
19. Likelihood of confusion represents the essential test in which a court determines whether a consumer may be confused as to the source of a particular product. If such confusion exists, liability for trademark infringement arises absent any attainable defense.
20. 693 F. Supp. 1500 (S.D.N.Y. 1988).
21. 700 F. Supp. 760 (S.D.N.Y. 1988).
22. 1997 U.S. Dist. LEXIS 8606, at \*1 (S.D.N.Y. June 19, 1997).
23. Ironically, this same photographer who sued for the misappropriation of the Jackie picture, Henri Dauman, took portraits of Warhol in his studio for *Life* magazine and provided other source photos for Warhol's works.
24. *Warhol Found. for the Visual Arts, Inc. v. Fed. Ins. Co.*, 189 F.3d 208 (2d Cir. 1999).
25. 764 F. Supp. 43 (S.D.N.Y. 1991).
26. 1995 U.S. Dist. LEXIS 1767, at \*1 (S.D.N.Y. Feb. 15, 1995).
27. *Schlaifer Nance and Co., Inc. v. Estate of Warhol*, 927 F. Supp 650, 651 (S.D.N.Y. 1996).
28. 119 F.3d 91 (2d Cir. 1997).
29. *Id.* at 99.
30. *Schlaifer Nance and Co., Inc. v. Estate of Warhol*, 7 F. Supp. 2d 364 (S.D.N.Y. 1998).
31. *Schlaifer Nance and Co., Inc. v. Estate of Warhol*, 194 F.3d 323 (2d Cir. 1999).
32. *Artwear Inc. v. Hughes*, 202 A.D.2d 76, 615 N.Y.S.2d 689 (1st Dep't 1994).
33. For example, New York law establishes that any art merchant who sells a work to a nonmerchant buyer creates an express warranty if he identifies the work with an author. N.Y. Arts & Cult. Aff. Law § 13.01 (McKinney 1984).
34. The basic elements of a common law fraud claim include a seller making a misstatement that (1) is related to a material matter of fact, (2) was made with intent to induce reliance, (3) induced justifiable reliance, and (4) resulted in damages suffered by the buyer. Restatement (Second) of Torts § 552C.
35. Under this doctrine, it must be shown that (1) the mistake was a basic assumption on which the contract was made, (2) the mistake had a material effect on the agreed-upon exchange of performance, and (3) the adversely affected party did not assume the risks of the mistake. Restatement (Second) of Contracts § 152.
36. 234 N.Y.S. 185 (Sup. Ct. 1927).
37. *Simon-Whelan v. Andy Warhol Found. for the Visual Arts, Inc.*, No. 1:07-cv-06423-LTS (S.D.N.Y. filed July 13, 2007).
38. This name refers to the fact that the Foundation twice stamped "Denied" in red ink onto the back of Simon-Whelan's piece, which consists of a Warhol self-portrait silk-screen on canvas with peach-colored background.
39. 2009 U.S. Dist. LEXIS 44242.

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# Von Saher v. Norton Simon Museum of Art: The Validity of Laws Affecting Holocaust-Era Looted Art and the Statute of Limitations

By Megan Laurel Maxwell

In *von Saher v. Norton Simon Museum of Art*,<sup>1</sup> the California District Court for the Central District of California evaluated the constitutionality of Section 354.3 of the California Code of Civil Procedure that allowed for an extension of the statute of limitations for claims involving Holocaust-era looted art.<sup>2</sup> The case illustrates just one example of how courts must strike a balance when considering the state interest in resolving stolen property issues and the federal government's interest in sustaining stable foreign relations.

This article will explore the rationale behind *von Saher*'s holding and evaluate whether the district court is correct. It will analyze the decision in light of the upcoming appeal and determine whether the Ninth Circuit will be more favorable to the plaintiff.

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*"The case illustrates just one example of how courts must strike a balance when considering the state interest in resolving stolen property issues and the federal government's interest in sustaining stable foreign relations."*

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## I. Prior Legislative and Judicial Treatment

### Legislative Treatment

In order to better provide resolution for victims of Holocaust-era looted art, the California legislature enacted a statute, which became effective on January 1, 2003, allowing for an extension of the statute of limitations regarding claims for recovery.<sup>3</sup> California Code of Civil Procedure § 354.3 allows any owner, or heir, to commence on or before December 31, 2010 an action for recovery of Holocaust-era artwork from any museum or gallery, regardless of whether the traditional three-year statute of limitations has already passed.<sup>4</sup> The museum or gallery must display, exhibit, or sell any article of historical, interpretive, scientific, or artistic significance.<sup>5</sup> In order to qualify as "Holocaust-era artwork" the article must be of "artistic significance taken as a result of Nazi persecution during the period of 1929 to 1945."<sup>6</sup>

### a. Federal Foreign Affairs Power

Under the Supremacy Clause of the Constitution, federal action (or in some cases, inaction) preempts state action.<sup>7</sup> Preemption can either be express (when Congress

explicitly closes off an area to state action) or implied (when there is no explicit language).<sup>8</sup> There are two types of implied preemption: (1) field preemption; and (2) conflict preemption.<sup>9</sup> Under field preemption, federal law exclusively covers the area at issue.<sup>10</sup>

In the area of foreign affairs, courts have generally found field preemption<sup>11</sup> but states may also be preempted by federal law, executive agreement, or international treaty.<sup>12</sup> In *Zschernig v. Miller*,<sup>13</sup> the Supreme Court recognized the federal foreign affairs power and held that an Oregon statute that had increased requirements for nonresident aliens wishing to claim property was invalid under the Constitution.<sup>14</sup> The Court stated that the state statute had a "direct impact on foreign relations and may well adversely affect the power of the central government to deal with those problems."<sup>15</sup> In its analysis, the Court considered the previous decision in *Hines v. Davidowitz*,<sup>16</sup> involving a Pennsylvania immigration law, where it looked to the Supremacy Clause, previous case law,<sup>17</sup> and Founding Fathers' memoirs<sup>18</sup> to reach the conclusion that "our system of government is such that the interest of the cities, counties and states, no less the interest of the people of the whole nation, imperatively requires that federal power in the field affecting foreign relations be left entirely free from local interference."<sup>19</sup> Using the rationale in *Hines*, the Court in *Zschernig* held that where state laws conflict with a treaty, the federal law will prevail, or if there is no federal treaty, the state law may still be invalid if it interferes with foreign relations (i.e., a state could not deny admission to a citizen of East Germany).<sup>20</sup> Since *Zschernig*, courts have been reluctant to strike down state laws, noting that the interference must be more than incidental.<sup>21</sup>

### b. "Sister" Statute and *Deutsch v. Turner Corporation*

Prior to *von Saher*, in *Deutsch v. Turner Corporation*, the U.S. Court of Appeals for the Ninth Circuit considered whether a California statute that extended the statute of limitations for claims involving World War II slave labor was constitutional.<sup>22</sup> California Code of Civil Procedure § 354.6 stated that claims arising from World War II slave labor were not time-barred if commenced on or before December 31, 2010.<sup>23</sup> Plaintiffs, civilians and soldiers subjected to slave labor by German and Japanese corporations relied on this statute in order to make their claims timely.<sup>24</sup> First, the court held that § 354.6 was substantive in nature, which was significant since statutes of a substantive nature were more likely to exceed the limits



of state power.<sup>25</sup> California created a special class of tort actions, “with the aim of rectifying wartime wrongs committed by our enemies or by parties operating under enemies’ protection.”<sup>26</sup>

Second, the court proceeded to a foreign affairs doctrine analysis. It conceded that the Constitution did not create an express power over foreign affairs, but certain Constitutional provisions and subsequent Supreme Court holdings had created a general foreign affairs power reserved for the federal government.<sup>27</sup> The court considered matters concerning war as “part of the inner core of this power” and that matters related to war “are for the federal government alone to address.”<sup>28</sup> Without authorization from federal government action, states are prohibited from exercising foreign affairs powers, “including modifying the federal government’s resolution of war-related disputes.”<sup>29</sup>

In regard to World War II, the U.S. government signed numerous agreements, including the 1945 agreements at Yalta and Potsdam, but none of the agreements included provisions allowing for a private cause of action against Germany or its nationals.<sup>30</sup> In 2000, the United States and Germany signed an executive agreement allowing for the creation of a foundation to disburse payments to people who suffered because of actions by German companies.<sup>31</sup> *Deutsch* argued that these agreements did not prohibit a state from creating a cause of action for victims of wartime atrocities, but the Court stated that the Constitution allocated power over foreign affairs to the federal government exclusively.<sup>32</sup> Thus, it held that § 354.6 was unconstitutional because it created a cause of action and resurrected time-barred claims which ultimately “intrudes on the federal government’s exclusive power to make and resolve war, including the procedure for resolving war claims.”<sup>33</sup>

## II. Background of *Von Saher v. Norton Simon*

Jacques Goudstikker was a prominent art collector and dealer in Europe prior to World War II when the Nazis took over his business.<sup>34</sup> Included in his collection were *Adam and Eve*, two 16th Century oil paintings on wood panels by Lucas Cranach the Elder.<sup>35</sup> Goudstikker died in a shipboard accident while fleeing from Europe.<sup>36</sup> After the war, his wife was able to recover some works, but not the Cranachs, during a settlement with the Dutch government.<sup>37</sup> After the settlement, the Dutch government transferred title of the Cranachs to George Stroganoff-Scherbatoff.<sup>38</sup> In 1971, the Museum acquired the paintings from Stroganoff-Scherbatoff and they have been on display since 1979.<sup>39</sup> In 2000, Marei von Saher, Goudstikker’s daughter-in-law, discovered that the Cranachs were at the Norton Simon and commenced negotiation and mediation proceedings.<sup>40</sup> On May 1, 2007 the plaintiff filed her complaint to recover sole possession of the Cranach paintings under the theories of (1) Replevin; (2) Conversion; (3) Damages under California Penal Code § 496;

(4) Quiet Title; and (5) Declaratory Relief.<sup>41</sup> The defendant filed a motion to dismiss for failure to state a claim upon which relief can be granted, arguing the unconstitutionality of § 354.3, upon which the plaintiff based her case.<sup>42</sup>

## III. *Von Saher v. Norton Simon Holding*

The district court held that § 354.3 was facially unconstitutional and dismissed the plaintiff’s claim.<sup>43</sup> The court looked to the Ninth Circuit’s decision in *Deutsch* for guidance and found that § 354.3 was substantially similar to § 354.6 and thus § 354.3 intruded on the federal government’s power to resolve war claims.<sup>44</sup> After the foreign affairs doctrine analysis, the court held that the general statute of limitations had already passed. Pursuant to California Code of Civil Procedure § 338,<sup>45</sup> the plaintiff had three years to bring an action for recovery of the paintings.<sup>46</sup> According to the decision, since the Museum acquired the Cranachs in 1971, the statute of limitations had passed and therefore the plaintiff’s claims were time-barred.<sup>47</sup>

## IV. Analysis

### § 354.3 vs. § 354.6—Misplaced Reliance on *Deutsch*

The District Court held that California’s attempt at extending the statute of limitations for Holocaust-era looted artwork was unconstitutional, basing its opinion on *Deutsch*. However, though the end result may be correct, its reliance on *Deutsch* is misplaced. First, the statutes are not substantially similar. Second, the areas of law are vastly different and no overriding international treaty or executive agreement applies to *Von Saher*.

First, although the court in *von Saher* considered § 354.3 to be substantially similar to § 354.6, there is a notable difference between the two statutes. Section 354.6 concerned suits against the “Nazi regime, its allies and sympathizers, or enterprises transacting business in any of the areas occupied by or under control of the Nazi regime or its allies and sympathizers.”<sup>48</sup> Section 354.3 concerns suits against museums or galleries. Though this difference may seem minor, in effect it creates many differences in the defendants found in each case. The museums or galleries in suits brought pursuant to § 354.3 could be located anywhere in the world—they may not have even been in existence at the time World War II. In contrast, the defendants in § 354.6 are German or Japanese corporations that existed at the time of the war, or their successors in interest. They are specifically defendants connected with the war. Moreover, in most cases, the museums or galleries are not even responsible for the original looting. For example, in this case the Norton Simon bought the painting in good faith from a seller and was not responsible for the Cranachs being taken out of Goudstikker’s collection. In the case of § 354.6, the corporations were responsible for the forced labor, as an extension of their good relations with the Nazi regime or its allies. This difference in defendants is significant when

considering how suits against them may affect foreign affairs.

Second, *Deutsch* relied on international treaties signed by the federal government following World War II that provided war resolutions. The court relied on various international agreements to show that the federal government had created a resolution to the war, one agreement even created a fund to disburse payments to victims of slave labor.<sup>49</sup> Without authorization from the federal government or from these international treaties, the states are not allowed to alter war resolutions.<sup>50</sup> However, the area of looted art is not as directly part of war resolutions as slave labor. As previously stated, the defendants are completely different. With slave labor, the defendants were directly involved with the war and its aftermath, probably expected some protection from the various international agreements that declined to provide for a private remedy for citizens. In the case of looted art, however, the defendants are most likely far removed from the war and any of its resulting treaties. A statute dealing with these defendant galleries or museums hardly alters war resolutions. Moreover, the federal government has signed an agreement regarding a fund for slave labor, thus implying that the area is now off limits to states. The federal government has not taken any such action for looted art. If anything, through its various branches and agencies, it has encouraged litigation for the recovery of looted art.<sup>51</sup>

Thus, while the two statutes share similarities, they are inherently different. The areas of law they cover and possible defendants affected are entirely different. The district court was wrong to place so much emphasis on *Deutsch* without supplying some additional analysis of the foreign affairs doctrine.

### Applying the Foreign Affairs Power

Although the District Court placed far too much reliance on *Deutsch*, the holding and principles of *Deutsch* are still controlling—a state law interfering with the foreign affairs power of the federal government is unconstitutional. However, the interference must be more than incidental. The issue is whether California’s altering of the statute of limitations for Holocaust-era artwork significantly interferes with federal government war resolution and foreign policy; it must not just merely incidentally interfere. Considering the little effect the statute will have on foreign relations and any post-War resolutions, the California statute should have been found constitutional and not in violation of the foreign affairs doctrine.

Section 354.3’s main impact is to extend the statute of limitations for Holocaust-era looted art. It does not necessarily create any new cause of action, and the cause of action for recovery of stolen items already existed. Even without the statute, plaintiffs could bring a lawsuit, assuming that they are within the three-year statute of limitation rule. Additionally, this impact will only be felt in the museum or gallery world and would not affect

private persons. Moreover, this statute does not necessarily affect foreign nationals, as § 354.6 did. The mere possibility of a foreign museum or gallery being sued does not automatically make the statute unconstitutional for interfering with foreign affairs. Furthermore, while the lawsuits arising from the statute would involve wartime wrongs, plaintiffs are not directly suing for relief from them. With slave labor, the plaintiff is suing the cause of his forced servitude, an ally of a wartime enemy. As previously stated, with looted art, these plaintiffs are often suing a museum or gallery that is merely indirectly involved with the original wartime wrong. Therefore, there is little interference with any resolution created in post-war treaties. Finally, recovery of looted art was excluded from war resolutions, and the federal government has allowed courts (both federal and state) to adjudicate these claims. Considering all these factors, the interference, if any, with foreign affairs and war is quite incidental and the District Court should have allowed the plaintiff’s suit to continue.

### Ethical Considerations—Soft Law?

Related to equity is a side issue of whether a court should soften the rules and allow consideration of “soft law” or ethics. Section 354.3 was meant to help plaintiffs who were victims of looting. Ethically and morally, it would be better to aid these victims with recovery of their items. With a longer statute of limitations, it would be easier for plaintiffs to bring suit without worry of dismissal. Even under the “discovery” rule, a plaintiff can lose if he or she was not diligent enough. Since it is the fact-finder’s responsibility to determine diligence, the plaintiff has little control over the outcome, especially as there is little established guidance over what constitutes diligence. By providing a specific date, plaintiffs who fall into the time line will be allowed to go forward. Both parties and the courts could focus on the merits, rather than on procedural matters. Therefore, the quality of arguments and evidence presented may increase. With those considerations in mind, the Ninth Circuit, so long as it is not bound by some higher authority, could rule that § 354.3 is constitutional and valid.

### Plaintiff’s Other Avenue—General Statute of Limitations

Separate from the foreign affairs power, the District Court held that the plaintiff’s claim was time-barred under California’s general statute of limitations rule.<sup>52</sup> In a footnote, the court rejected the plaintiff’s argument that the “discovery” rule should apply, allowing the statute of limitations to toll until she discovered the painting at the Norton Simon.<sup>53</sup> It claimed that the statute of limitations had expired before she even inherited her right to the claim (when her husband died and she became Goudstikker’s heir).<sup>54</sup>

Considering the facts in the opinion and California’s statute of limitations, the court’s reasoning is flawed.

Pursuant to § 338(c), “the cause of action in the case of theft [...] of any article of historical, interpretive, scientific, or artistic significance is not deemed to have accrued until the discovery of the whereabouts of the article by the aggrieved party.”<sup>55</sup> According to this rule, the statute of limitations would have been tolled until the plaintiff discovered the placement of the Cranachs at the Norton Simon in 2000. Ordinarily, she should have had until 2003 to file suit for recovery.

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*“If on appeal the Ninth Circuit correctly applies the foreign affairs doctrine, § 338 with the ‘discovery’ rule, and takes into consideration the ethical issues, then the plaintiff’s case will be restored and remanded back to the District Court for further adjudication.”*

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However, in this case, the plaintiff was already involved in negotiation and mediation with the defendant. There are no facts in the opinion to suggest that this was in anything but good faith. Therefore, the plaintiff could argue that equitable tolling should apply, allowing the statute of limitations to toll while negotiations were ongoing. Equitable tolling is up to the discretion of the court and requires (1) timely notice; (2) lack of prejudice to the defendant; and (3) reasonable and good faith conduct on the part of the plaintiff.<sup>56</sup> Here, the plaintiff notified the defendant and began negotiations within a year of discovery, the defendant was aware of the plaintiff’s claim, and the plaintiff, by all accounts, acted in good faith and only filed suit after negotiations broke down. A previous California Court of Appeal decision declined to toll the statute of limitations when the parties engaged in informal negotiations, but that case is not controlling (the California Supreme Court has not taken up the issue)<sup>57</sup> and the facts are different—significantly, the plaintiff did not provide notice within the limitations period.<sup>58</sup> Moreover, it would not be equitable and in the interests of justice to run the statute of limitations during negotiations or mediation. The purpose of the statute of limitations is to ensure prompt plaintiffs and protected defendants. So long as the parties are engaging in negotiation or mediation, the purpose of the statute of limitations is met—the plaintiff is prompt and pursuing resolution and the defendant is aware of the claim and not prejudiced.

The District Court applied the statute of limitations rule incorrectly and neglected to consider equitable tolling. If a higher court finds § 354.3 unconstitutional, the plaintiff can still rely on § 338 to pursue her claim.

## V. Conclusion

The District Court in *Von Saher* was incorrect in its holding. First, the court placed too much reliance on

*Deutsch* when the statutes at issue were significantly different. Second, the court did not apply a full foreign affairs analysis; it merely relied on *Deutsch*. Third, when considering the alternative statute of limitations in § 338, the court incorrectly rejected the “discovery” rule and incorrectly calculated the statute of limitations period. If on appeal the Ninth Circuit correctly applies the foreign affairs doctrine, § 338 with the “discovery” rule, and takes into consideration the ethical issues, then the plaintiff’s case will be restored and remanded back to the District Court for further adjudication.

## Endnotes

1. 2007 U.S. Dist. LEXIS 95757 (C.D. Cal. 2007).
2. Cal. Code Civ. Proc. § 354.3 (2007).
3. 2002 Cal. Stat. 332, § 1 (codified in notes to Cal. Code Civ. Proc. § 354.3).
4. § 354.3(b)-(c).
5. § 354.3(a)(1).
6. § 354.3(a)(2).
7. This article will cover federal preemption briefly and only strictly as it relates to foreign affairs. For a more detailed overview of federal preemption, see ERWIN CHEMERINSKY, CONSTITUTIONAL LAW: PRINCIPLES AND POLICIES 376-401 (Aspen 2002).
8. Chemerinsky, *supra* note 7, at 377.
9. *Id.* at 376-77.
10. *Id.* at 384-85.
11. *Id.* at 385.
12. See *Crosby v. Nat’l Foreign Trade Council*, 530 U.S. 363 (2000); *Am. Ins. Ass’n v. Garamendi*, 539 U.S. 396 (2003). For a detailed overview of the different forms of the foreign affairs power, see Nick Robinson, *Citizens Not Subjects: U.S. Foreign Relations Law and the Decentralization of Foreign Policy*, 40 AKRON L. REV. 647 (2007).
13. *Zschernig v. Miller*, 389 U.S. 429 (1968).
14. *Id.* at 432.
15. *Id.* at 441.
16. *Hines v. Davidowitz*, 312 U.S. 52 (1941).
17. Including *Chae Chan Ping v. U.S.*, 130 U.S. 581, 606 (1889).
18. “Thomas Jefferson, who was not generally favorable to broad federal powers, expressed a similar view in 1787: ‘My own general idea was, that the States should severally preserve their sovereignty in whatever concerns themselves alone, and that whatever may concern another State, or any foreign nation, should be made a part of the federal sovereignty.’ Memoir, Correspondence and Miscellanies from the Papers of Thomas Jefferson (1829), vol. 2, p. 230, letter to Mr. Wythe. Cf. James Madison in Federalist paper No. 42: ‘The second class of powers, lodged in the general government, consist of those which regulate the intercourse with foreign nations. . . . This class of powers forms an obvious and essential branch of the federal administration. If we are to be one nation in any respect, it clearly ought to be in respect to other nations.’” *Hines*, 130 U.S. at 63, n.11.
19. *Id.* at 63.
20. *Zschernig*, 389 U.S. at 441.
21. *Deutsch v. Turner Corp.*, 324 F.3d 692, 710 (9th Cir. 2003).
22. *Id.* at 703. Although the statutes are not identical, the court in *Von Saher*, in reaching its decision, considered § 354.6 to be a sister statute of § 354.3. *Von Saher*, 2007 U.S. Dist. LEXIS 95757 at \*6.
23. Cal. Code Civ. Proc. § 354.6.

24. *Deutsch*, 324 F.3d at 704. One plaintiff was held by a German corporation; the rest of the plaintiffs had claims against Japanese corporations.
25. *Id.* at 708.
26. *Id.*
27. *Id.* at 709–710.
28. *Id.* at 711–12.
29. *Id.* at 714.
30. *Deutsch*, 324 F.3d at 712–13.
31. *Id.* at 713.
32. *Id.* at 713–14.
33. *Id.* at 712.
34. Suzanne Muchine, *Norton Simon to Keep Pair of Paintings*, L.A. TIMES, Oct. 19, 2007, at B3.
35. Muchine, *supra* note 34, at B3. There is dispute over whether Goudstikker ever acquired good title of the works since the works were allegedly stolen from the Stroganoff family collection after the family fled from the Russian Revolution. Kenneth Ofgang, *Norton Simon, Woman File Dueling Suits Over Nazi-Looted Art*, METROPOLITAN NEWS, May 3, 2007, at 1.
36. Ofgang, *supra* note 35, at 1.
37. Muchine, *supra* note 34, at B3.
38. *Id.*
39. *Von Saher*, 2007 U.S. Dist. LEXIS 95757 at \*2–3.
40. Muchine, *supra* note 34, at B3.
41. *Von Saher*, 2007 U.S. Dist. LEXIS 95757 at \*3.
42. *Id.* at \*1–2.
43. *Von Saher*, 2007 U.S. Dist. LEXIS 95757 at \*9.
44. *Id.* at \*8–9.
45. Cal. Code. Civ. Proc. § 338(c) (2008).
46. *Von Saher*, 2007 U.S. Dist. LEXIS 95757 at \*10.
47. *Id.* at \*9–10. It should be noted that the court rejected the “discovery argument.” *Id.* at \*10 n.2.
48. Section 354.6(a).
49. *Deutsch*, 324 F.3d at 715.
50. *Id.* at 715.
51. See *Republic of Austria v. Altmann*, 541 U.S. 677 (2004); and *U.S. v. Portrait of Wally*, 2002 U.S. Dist. LEXIS 6445 (S.D.N.Y. 2002).
52. *Von Saher*, U.S. Dist. LEXIS 95757 at \*9–10.
53. *Id.* at \*10 n.2
54. *Id.* at \*9–10.
55. Section 338(c).
56. *Addison v. C.A.*, 21 Cal. 3d 313, 319 (1978).
57. In *Davis v. Rite-Lite Sales Co.*, the California Supreme Court dismissed the plaintiff’s fraud cause of action for various reasons, including the expiration of the statute of limitations. 8 Cal. 2d 675, 682 (1937). While the court did not expressly state that negotiations toll the statute of limitations, in its statute of limitations analysis, the court deducted the three years of negotiations. *Id.* Although dicta, this is significant and points toward possible tolling during negotiations.
58. *65 Butterfield v. Chicago Title Ins. Co.*, 70 Cal. App. 4th 1047, 1063 (Ca. Ct. App., 4th Dist. 1999).

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# Restructuring the Art World: An Examination of Controversial Museum Deaccessioning Practices in the Current Economic Climate

By Kacey Bayles

It was the shot heard 'round the world—or at least the art world. In January 2009, the trustees of Brandeis University (Brandeis) voted unanimously to close the Rose Art Museum and sell off the collection of 1,400 artworks.<sup>1</sup> Citing a growing budget deficit and shrinking endowment, Brandeis trustees looked to the collection of artwork that was appraised for \$350 million in 2007 as the solution to their financial tribulations.<sup>2</sup> Although Brandeis is reconsidering its initial offer to liquidate the Rose, it has reinvigorated the debate surrounding museums' controversial decisions to sell artwork in order to raise funds.

A timely issue in the art world, deaccessioning demands immediate attention. The practice is defined as “the process by which an art museum removes and disposes permanently of works in its collection.” The importance of deaccessioning is best understood through an examination of museum organizational structure, ethical guidelines promulgated by trade institutions, and current examples of controversial deaccessioning. Furthermore, it is useful to discuss the Barnes Foundation case in the consideration of potential legal issues that may arise from the selling of artwork. Finally, the question arises of whether museum deaccessioning to raise operating funds should be sanctioned in light of the current financial crisis.

As a practice, deaccessioning is antithetical to a museum's central purpose, which is to “acquire or own works of art, care for them, interpret them, and exhibit them to the public on some regular schedule.”<sup>3</sup> Although they can be established as either public or private institutions, all art museums are nonprofit organizations with tax-exempt status under section 501(c)(3) of the Internal Revenue Service (IRS) Code.<sup>4</sup> Public art museums are government-controlled institutions and are subject to statutory regulation, which varies according to state, in both their organization and operation.<sup>5</sup>

Generally, private art museums are established as either charitable trusts or nonprofit corporations. An institution that has been established as a charitable trust<sup>6</sup> must “accomplish a substantial amount of social benefit to the public or some reasonably large class thereof.”<sup>7</sup> An art museum that is a charitable trust is administered by a board of trustees, which imposes on the board responsibilities to “protect, preserve and increase the museum's assets—its trust funds and its collection.”<sup>8</sup> Significantly, these trustees are also charged with duties of loyalty and care.<sup>9</sup> The trust is enforceable by the attorney general of the state in which it is located. Most private art museums

are established as nonprofit corporations.<sup>10</sup> Like charitable trusts, the nonprofit corporation serves the “general purpose of providing a social benefit to the public.”<sup>11</sup> An elected board of directors manages these organizations<sup>12</sup> and also incurs fiduciary obligations to the public, such as the duties of loyalty and care.<sup>13</sup> Museums are considered public trusts<sup>14</sup> and may encounter similar problems regardless of their organizational structure.<sup>15</sup>

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*“The importance of deaccessioning is best understood through an examination of museum organizational structure, ethical guidelines promulgated by trade institutions, and current examples of controversial deaccessioning.”*

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In the absence of substantial guidance on deaccessioning from state courts and legislation,<sup>16</sup> ethical guidelines set forth in 1993 by trade institutions such as the American Association of Museums (AAM) and the Association of Art Museum Directors (AAMD) govern the practice. Essentially, these institutions delineate appropriate reasons for deaccessioning a work of art and how the proceeds from the sale may be used. The AAM states that proceeds from the sale of collections are to be used “consistent with the established standards of the museum's discipline, but in no event shall they be used for anything other than acquisition or direct care of collections.”<sup>17</sup> Similarly, the AAMD delineates two “fundamental principles” that are observed whenever a member art museum deaccessions an object. Namely, the AAMD requires that the decision to deaccession be made “solely to improve the quality, scope and appropriateness of the collection, and to support the mission and long-term goals of the museum.” Second, the AAMD notes that proceeds from a deaccessioned work should be used “only to acquire other works of art. The proceeds are never used as operating funds, to build a general endowment, or for any other expenses.”<sup>18</sup> Furthermore, the College Art Association (CAA) supports the Codes of Ethics of the AAM and AAMD.

Generally, problems do not arise for museums when deaccessioning if they abide by the principles of the aforementioned institutions. Accordingly, museums may choose to deaccession certain artworks for ethically sound reasons. First, a museum may wish to “prune its collec-

tion to define areas of interest more clearly.”<sup>19</sup> Second, a museum may find that the cost of properly storing, conserving, and insuring artwork may not allow for the maintenance of peripheral art objects.<sup>20</sup> Third, a museum may wish to acquire more artworks that are either “superior or more appropriate to the museum’s collections.”<sup>21</sup> According to the trade institutions’ Codes of Ethics, just examples of deaccessioning include the following two: In 1999, the Museum of Modern Art (MoMA) in New York sold at auction George Bellows’s *Polo Crowd* for \$27.5 million in order to raise funds for future acquisitions. MoMA noted that this artwork fell outside the museum’s “traditional collecting mission.”<sup>22</sup> In 2003, the Aldrich Museum of Contemporary Art in Ridgefield, Connecticut sold its entire painting and sculpture collections in order to “concentrate on the museum’s mission of photography.”<sup>23</sup> Few deaccessioning controversies have erupted over a museum’s use of proceeds for the sale of artwork to finance new acquisitions.<sup>24</sup> The same cannot be said when museums break the cardinal rule of deaccessioning by using the proceeds to pay the heating bill.

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*“In the absence of case law, it is useful to examine The Barnes Foundation case as an example of how courts could hold in matters of deaccessioning.”*

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Museums are encountering considerable financial hardship as operating costs continue to expand while funding offered by corporations such as Lehman Brothers and individual donors has diminished or disappeared altogether.<sup>25</sup> Recently, several museums deaccessioned works of art to cover operating expenses and raised a firestorm of controversy in the process. In December 2008, the National Academy Museum (the Academy) sold two important Hudson River School paintings to pay its bills.<sup>26</sup> The 184-year-old Academy received \$13.5 million from a private buyer for the two works: Frederic Edwin Church’s *Scene on the Magdalene* from 1854 and Sanford Robinson Gifford’s *Mount Mansfield, Vermont* from 1859. After the sale, the AAMD censured the Academy and immediately directed other museums to cut off all loans and forgo any collaboration with the institution.<sup>27</sup> The AAMD accused the Academy of “breaching one of the most basic and important principles in the museum world.”<sup>28</sup> Recently, the institution promised not to sell additional paintings and is examining alternative methods of fundraising.<sup>29</sup>

Perhaps even more controversial than the Academy’s actions are those of Fisk University (Fisk), a historically black college in Nashville, Tennessee that is home to the Carl Van Vechten Gallery. Fisk had been locked in a bitter battle over the fate of its Alfred Stieglitz Collection, a set of 101 pieces worth an estimated total of more than \$100

million.<sup>30</sup> Georgia O’Keeffe, Stieglitz’s wife, donated the collection to Fisk in 1949. Fearing the need to close its gallery and looking to replenish a dwindling endowment, Fisk sought court approval to violate the terms of O’Keeffe’s donation by selling an interest in two specific works in the collection to raise funds.<sup>31</sup> The O’Keeffe Museum in Santa Fe, New Mexico, which manages the artist’s estate, sued to block the sale of the 1927 O’Keeffe painting *Radiator Building—Night, New York* from 1927 and a half interest in the Marsden Hartley work *Painting No. 3* from 1913. The museum argued that Georgia O’Keeffe never intended for the works to be sold; in the end, the university failed to gain approval.<sup>32</sup>

As an alternative, Fisk sought to raise funds by entering into a \$30 million collection-sharing agreement with the Crystal Bridges Museum of American Art in Bentonville, Arkansas.<sup>33</sup> A trial began in February 2008 to determine if Fisk should forfeit the collection to the Georgia O’Keeffe Museum. The following month, a Tennessee judge issued a ruling that allowed Fisk to keep possession of the collection but prevented future sale of artwork.<sup>34</sup> Fisk appealed the ruling. In July 2009, the Tennessee Court of Appeals found that the Georgia O’Keeffe Museum did not have standing to block sale of the artwork. Consequently, the court found in Fisk’s favor and vacated the lower court’s ruling on all grounds.<sup>35</sup>

When museums deaccession works of art to raise operating funds, problems may arise that could complicate or halt the sale of the works altogether. In particular, museums grapple with potential legal matters, such as violation of fiduciary duties, tax implications, and violation of the donation agreement. First, museum trustees and directors may be accused of violating the fiduciary duty of loyalty to the public by selling off an artwork that could be available for public viewing.<sup>36</sup> Similarly, these bodies could be accused of violating the fiduciary duty of care to their respective institutions by failing to prudently manage the museum’s assets, including its trust funds and collection.<sup>37</sup> Next, museums face tax implications if an artwork that was donated to an institution is sold within two years of the date of donation.<sup>38</sup> Third, museums may violate the restrictive terms attached to a charitable gift by deaccessioning an artwork.<sup>39</sup> The use of the funds to cover operating expenses rather than to purchase artwork further complicates the matter.

Although there is little guidance from the court system regarding museum deaccessioning, the legal system is no stranger to the matter. Deaccessioning artwork may land museums and parent institutions, such as universities, in court to determine the future of their collections. In the absence of case law, it is useful to examine The Barnes Foundation case as an example of how courts could hold in matters of deaccessioning. Specifically, this case addresses the notions of violation of fiduciary duties and violation of restrictions attached to charitable

gifts. The use of the doctrine of deviation in *Barnes* may provide guidelines for museums that may encounter legal problems.

A man of humble origins, Dr. Albert C. Barnes rose to become a wealthy individual who amassed one of the most extraordinary collections of Impressionist and Modern Art in the world.<sup>40</sup> Dr. Barnes wished to use the art for didactic purposes, primarily to educate underprivileged students. In 1922, the Commonwealth of Pennsylvania granted him a charter to establish the education institution known as The Barnes Foundation. An indenture of trust providing an endowment of \$6 million was established to benefit “the advancement of education and the appreciation of fine arts.”<sup>41</sup> By the late 20th century, The Barnes Foundation found itself plagued by dwindling endowment funds and in desperate need of a rescue.

In 2002, the Board of Trustees (Board) for The Barnes Foundation sought court approval to violate the terms of the trust indenture to relocate the collection from its home in Merion, Pennsylvania to downtown Philadelphia. In the court petition, the Board stated that “its current fiscal situation is dire . . . [which] puts at risk the Foundation’s ability to fulfill its primary purpose and threatens the Foundation’s survival.”<sup>42</sup> Art supporters pledged at least \$80 million of the \$150 million needed to relocate the collection. The supports included Pew Charitable Trusts, the Lenfest Foundation, the Philadelphia Museum of Art, and the Annenberg Foundation.<sup>43</sup>

The main legal question in *In re Barnes Foundation* is whether the Board should be allowed to violate the terms of the trust indenture by moving the collection to Philadelphia in order to ensure its “continuing financial and aesthetic health.”<sup>44</sup> In 2004, Judge Ott approved the Board’s petition on the grounds that he considered the move as “the only viable alternative to save the Barnes from bankruptcy.”<sup>45</sup> Legal authority for amending Dr. Barnes’s indenture on this issue can be found in the doctrines of deviation<sup>46</sup> and *cy pres*.<sup>47</sup> The trustees of Barnes claimed, “Compliance with the terms for the Trust Indenture and Bylaws, which situate the Barnes Foundation in its current location in Lower Merion would ‘defeat or substantially impair the accomplishment of the purposes of the trust.’”<sup>48</sup> The trustees requested to violate the terms of the trust indenture in order to act on behalf of the Foundation.<sup>49</sup>

If a lawsuit were filed to block a museum such as the Academy from deaccessioning artwork, the court could refer to *Barnes* while considering the proposed terms of sale. In order for the sale to proceed, the court should determine that the trustees are acting in the best interest of the institution and are fulfilling fiduciary duties to the public by enabling the collection to remain on view. As in *Barnes*, museum trustees must demonstrate to the court ultimate loyalty to the public beneficiaries by “proving that the museum genuinely needs the funds and that the

intended use of the proceeds upholds the public purposes expressed in the charitable-trust indenture or corporate charter.”<sup>50</sup> If the proceeds are to be used for operating expenses, the court should determine if alternative means of fundraising are available. If other sources do not exist, the court should approve the sale—even if donation agreements could be violated—to preserve the health of the remainder of the collection. For this reason, the trial court in *Fisk* should have approved the initial sale of the two artworks. On appeal, the Appellate Court disagreed with the lower court’s rejection of the University’s *cy pres* petition and remanded the case back to the trial court to “determine whether *cy pres* is available, and if so, to fashion the appropriate relief.”<sup>51</sup> While it has potential to significantly alter deaccessioning practices, the impact the Tennessee Appellate Court’s ruling may have in other jurisdictions remains to be seen.

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*“If approved, this bill could cause substantial harm to museums that may have no choice but to forfeit their collections and close their doors to the public.”*

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Deaccessioning is not the ideal solution to ameliorate museums’ financial woes; rather, the practice is a pragmatic approach to remaining salient in the current economic climate. Many institutions keep the majority of their collections in storage and away from public viewing. Museums such as the Metropolitan Museum of Art, which only displays 10 percent of its collection,<sup>52</sup> could reduce costs while raising operating revenues by selling some of these artworks. In addition, organizations such as the AAM and AAMD should amend their Code of Ethics clauses that govern deaccessioning to help museums grapple with these extraordinary circumstances. Rather than hamstringing institutional efforts to keep doors open to the public, these organizations should work with museums to explore alternatives to selling artwork but should not censure or condemn member institutions if no other options exist. If forced to sell artwork, museums should privilege public buyers over private collectors.<sup>53</sup> Adversaries of deaccessioning may claim that the practice could lead to a reduction of giving to public institutions; however, this threat may be a moot point if museums cannot afford to remain open.

There is a vast distinction between the egregious actions of Brandeis University and limited deaccessioning to raise operating funds by museums. Significantly, Brandeis wished to sell an entire collection of 1,400 works to raise funds. Furthermore, the proceeds from the sale would have gone toward it, and not the Rose Art Museum. Institutions that engage in controlled deaccessioning are attempting to combat the economic forces stacked against them. In light of the current financial crisis, the

bill introduced in the New York State Legislature that would ban museum deaccessioning to cover operating costs<sup>54</sup> should not pass. If approved, this bill could cause substantial harm to museums that may have no choice but to forfeit their collections and close their doors to the public.

## Endnotes

1. Gillian Wee & Janet Frankston Lorin, *Brandeis to Close Rose Art Museum as Endowment Slips*, Bloomberg, Jan. 27, 2009, [www.bloomberg.com](http://www.bloomberg.com) <Accessed March 7, 2009>.
2. *Id.* Specifically, Brandeis University faces a \$79 million budget gap in the next five years, and its endowment has dropped by 30% in the past year.
3. Ralph E. Lerner & Judith Bresler, *Art Law: The Guide for Collectors, Investors, Dealers, and Artists*, 3 ed., vol. 3 (New York: Practising Law Institute, 2005), 1852.
4. *Id.*
5. *Id.*
6. *Id.* at 1851. A charitable trust is a type of trust agreement, which is defined as: "A fiduciary relationship with respect to property in which the creator of the trust designates . . . a trustee to administer the trust property for the benefit of another, the beneficiary. The trustee holds legal title to the trust property but can use that property only for the good of the beneficiary."
7. Jennifer L. White, *When It's OK to Sell the Monet: A Trustee-Fiduciary Duty Framework for Analyzing the Deaccessioning of Art to Meet Operating Expenses*, 94 Mich. L. Rev. 1041 (February 1996), 1049.
8. Lerner, *Art Law*, 1851.
9. White, *When It's OK to Sell the Monet*, 1051. The trustee standard of loyalty requires the "trustee to 'administer the trust solely in the interest of the beneficiary,' which is the general public in the case of a charitable trust. The trustee must display complete loyalty to the interests of the public." The duty of care encompasses a trustee's "exercise of care and diligence in managing the trust or corporation." In the context of museums, the duty of care "refers to management of the museum's assets, including not only proper management of trust funds but also due care for the museum's collection." The trustee standard of care requires trustees to exercise care that an "ordinarily prudent person would exercise" when dealing with his own property.
10. *Id.* at 1852.
11. White, *When It's OK to Sell the Monet*, 1049.
12. Lerner, *Art Law*, 1853.
13. White, *When It's OK to Sell the Monet*, 1051. Under a nonprofit corporation structure, the duty of care for a corporate director is similar to the duties required of trustees; however, the courts "allow corporate directors a much wider range of discretion." Specifically, the "business-judgment rule" allows for directors to use their own judgment and pardons simple errors.
14. Jason R. Goldstein, *Deaccession: Not Such a Dirty Word*, 15 *Cardozo Arts & Ent LJ* 213 (1997), 214.
15. White, *When It's OK to Sell the Monet*, 1049.
16. Lerner, *Art Law*, 1882.
17. "Code of Ethics for Museums," American Association of Museums, [www.aam-us.org](http://www.aam-us.org) <Accessed March 7 2009>.
18. "Code of Ethics," Association of Art Museum Directors, [www.aamd.org](http://www.aamd.org) <Accessed March 7 2009>.
19. Lerner, *Art Law*, 1881.
20. *Id.*
21. *Id.*
22. *Id.* at 1884. It should be noted that George Bellows's *Polo Crowd* was bequeathed to MoMA by Mrs. John Hay Whitney after her death in 1998.
23. *Id.*
24. Goldstein, *Deaccession*, 225.
25. Carol Vogel, *Museums Fear Lean Days Ahead*, *New York Times* home edition, Oct. 12, 2008, available at [www.nytimes.com](http://www.nytimes.com) <Accessed Dec. 1, 2008>.
26. Robin Pogrebin, *National Academy Revises Its Policies*, *New York Times* home edition, Mar. 17, 2009, available at [www.nytimes.com](http://www.nytimes.com) <Accessed Mar. 17, 2009>.
27. *Id.* Essentially, this action of censure prevents the Academy from holding exhibitions that include artwork on loan from other institutions.
28. Rebecca Murray, Lecture, "Museum Deaccessioning," Mar. 30, 2009. The actions of the Academy appear antithetical to the institution's mission of promoting American art, since the Academy does not possess another work by Gifford and possesses one less important work by Church.
29. Pogrebin, *National Academy*, *New York Times*, Mar. 30, 2009. Recently, the National Academy and the AAMD entered into discussions in order to explore fundraising options aside from the deaccessioning of artwork.
30. Theo Emery, *O'Keeffe Museum Asks Court to Stop Art-Sharing Deal by University in Tennessee*, *New York Times* late edition, available at [www.newyorktimes.com](http://www.newyorktimes.com), Oct. 17, 2007. The collection's appraised value of \$100 million was determined in 2007. It should also be noted that university-embedded museums such as the Carl Van Vechten Gallery are not member institutions of the AAM or AAMD.
31. *Id.*
32. *Id.* The O'Keeffe Museum sued to block the sale of the artworks but then negotiated a settlement in which it would buy *Radiator* for \$7.5 million. A judge vetoed the O'Keeffe deal upon learning of a potential collection-sharing agreement between Fisk University and the Crystal Bridges Museum in Arkansas.
33. *Id.* Specifically, the University would receive \$30 million from the Crystal Bridges Museum for a 50% interest in the collection.
34. *O'Keeffe Museum Says Fisk Should Forfeit Collection*, *ArtInfo*, Feb. 20, 2008, available at [www.proquest.com](http://www.proquest.com) <Accessed Mar. 29, 2009>. The O'Keeffe Museum, which represents the artist's estate, laid claim to the entire collection on the grounds that Fisk has repeatedly violated the conditions of O'Keeffe's gift. Specifically, Fisk went against stipulations that the collection be displayed intact. Fisk has loaned works for traveling exhibitions, and the collection has been in storage at a Nashville museum since 2006.
35. "Appellate Court Rules in Favor of Fisk University," Fisk University, [ww.fisk.edu/news\\_releases/071509\\_appellate\\_court\\_ruling.doc](http://ww.fisk.edu/news_releases/071509_appellate_court_ruling.doc).
36. White, *When It's OK to Sell the Monet*, 1053.
37. *Id.* at 1054.
38. Lerner, *Art Law*, 1883. Specifically, § 6050 of the IRS Code requires a museum that received any donated property for which an income tax charitable contribution of more than \$5,000 was claimed to file an information report with the IRS if the contributed property is "sold, exchanged, or otherwise disposed of" within two years of the date of receipt of donation. A museum may cause the donor to forfeit both the work of art and the tax deduction if the gift is sold within the two-year period following the date of donation.
39. Goldstein, *Deaccession*, 213.



40. Karen Witzcak, *The Litigious Legacy of Dr. Barnes: What Is the Future of The Barnes Foundation?*, 3 NYSBA Ent., Arts & Sports LJ 19 (Summer 2008), 49.
41. As qtd. in Witzcak, *The Litigious Future*, 49. Further, the charter noted that the funds should be used to “erect, found, and maintain . . . an art gallery and other necessary buildings for the exhibiting of works of ancient and modern art.”
42. *Barnes*, 2004 WL 1960204 (Pa.Com.Pl.).
43. Witzcak, *The Litigious Future*, 49.
44. *Id.* A secondary legal question in *Barnes* involved increasing the number of Barnes Foundation trustees from five to 15. This legal issue is not pertinent to the discussion of deaccessioning; however, the primary legal question of the relocation of the collection is applicable.
45. As qtd. in *id.*
46. 2004 WL 1960204 (Pa.Com.Pl.). The doctrine of deviation has been summarized in the *Restatement (Second) of Trusts* § 381 (1959). “A court will permit or permit the trustee of a charitable trust to deviate from a term of the trust if it appears to the court that compliance is impossible or legal, or that owing to circumstances not known to the settlor and not anticipated by him compliance would defeat or substantially impair the accomplishment of the purposes of the trust.” The Court of Common Pleas of Pennsylvania, Montgomery County, notes: “In order to permit deviation from the administrative provisions of a trust, courts generally require the presence of two elements (1) unforeseen and unforeseeable change in circumstances, and (2) a frustration of the settlor’s main objectives by this change, if strict obedience to the settlor [sic] directors were required.”
47. *Cy pres*, Merriam-Webster Online Dictionary, www.merriam-webster.com/dictionary/cypres <Accessed 01 May 2009>. The *cy pres* doctrine is defined as a rule providing for the “interpretation of instruments in equity as nearly as possible in conformity to the intention of the testator when literal construction is illegal, impracticable, or impossible.”
48. Jonathan Scott Goldman, *Just What the Doctor Ordered? The Doctrine of Deviation, the Case of Doctor Barnes’s Trust and the Future Location of the Barnes Foundation*, 39 Real Prop. Prob. & Tr. J. 711 (Winter 2005).
49. *Id.* It can be argued that the trustees acted in the best interest of the public, who could have lost all access to the art collection if The Barnes Foundation had been unable to remain financially solvent.
50. White, *When It’s OK to Sell the Monet*, 1059–1060.
51. *O’Keeffe Foundation v. Fisk*, 2009 WL 2047376, Tenn. Ct. App. In the opinion, Judge Frank G. Clement, Jr., stated: “We also reverse the trial court’s finding that the gifts to the University were motivated by a specific charitable intent instead of a general charitable intent, the finding that the University cannot establish that it is entitled to *cy pres* relief, and the order dismissing the Amended Petition of the University for *cy pres* relief.”
52. Maggie Beckham, Charles Bent & Quig Bruning, Group 1 Case Study Lecture, “Art Museum,” Nov. 20, 2008.
53. Rebecca Murray, *Museum Deaccessioning*.
54. Robin Pogrebin, *Bill Seeks to Regulate Museums’ Art Sales*, *New York Times* home edition, Mar. 17, 2009, available at www.nytimes.com <Accessed March 17, 2009>. Assemblyman Richard L. Brodsky drafted the bill in collaboration with the New York State Board of Regents and the Museum Association of New York. It was introduced in the New York State legislature and would prohibit museums from using proceeds from the sale of artworks “for traditional and customary operating expenses.”

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**Author’s Addendum:** Randy Kennedy, “Lawsuit Filed to Halt Closure of Brandeis Art Museum,” *New York Times* home edition, July 28, 2009, nytimes.com. <Accessed July 28, 2009>.

As noted in Kennedy’s article, the trustees of Brandeis University have said that no artworks will be sold in the “immediate future and that the building will remain open as an art-study center.” On July 27, 2009, three overseers of the Rose Art Museum filed suit in Massachusetts state court in the effort to halt the Brandeis’s plans to close the museum and sell the artwork. In their suit, the overseers, Jonathan O. Lee, Lois Foster, and Meryl Rose, contend that “Brandeis’s plans to close the museum ‘contradict the charitable intentions’ of the museum’s founders, ‘abrogate Brandeis’s promises that the Rose would be maintained in perpetuity’ as a modern and contemporary art museum and violate its commitments to those who donated art to the museum.”

# The Illicit Cultural Property Trade and the 1970 UNESCO Convention

By Nicholas Dietz

In the past few years, the media have covered a number of stories relating to the looting of antiquities and other cultural property. The sacking of Iraq's National Museum soon after the fall of Baghdad in 2003 drew international headlines. The issue of looting re-emerged in 2005 with the Italian Government's indictment of Marion True, then Chief Curator of Antiquities at the Getty Museum (Getty) in Los Angeles, for trafficking in looted Greek and Roman artifacts. As of this writing, True's trial is ongoing and though it has not garnered the same level of attention as the looting in Iraq, the former case provides far greater insight into the inner workings of the illicit antiquities trade, specifically the involvement of many prominent museums.

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*"The big picture is seldom examined—namely, the very existence of an international, multi-billion-dollar black market trade in looted and stolen antiquities. In fact, only two illegal markets in the world generate more money than the looted antiquities trade: drug smuggling and gun running."*

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Italy's investigations did not start, or stop, with Marion True and the Getty. The sordid tale began in the mid-1990s when Italian police followed antiquities dealer Giacomo Medici to a warehouse in Switzerland. A subsequent search of the warehouse uncovered a treasure trove of documents implicating dozens of museums, collectors, dealers, looters, and smugglers from around the globe, underscoring the international nature of the black market trade.<sup>1</sup>

Medici's files revealed that many of the museums that had purchased looted works were American. The most celebrated of the looted objects was the Euphronios krater, a large, 2,500-year-old terra cotta vessel named for its painter, Euphronios, one of the most renowned Greek artists of the age. The krater had been in the collection of New York's Metropolitan Museum of Art since the early 1970s. Prior to appearing at the Met, however, the krater was looted from an archeological site in Southern Italy. After lengthy negotiations and a great deal of bad publicity, the Met returned the piece to Italy in early 2008.<sup>2</sup>

Despite the media coverage, these and other examples of looting are generally considered to be rare, unrelated occurrences. The big picture is seldom exam-

ined—namely, the very existence of an international, multi-billion-dollar black market trade in looted and stolen antiquities. In fact, only two illegal markets in the world generate more money than the looted antiquities trade: drug smuggling and gun running.<sup>3</sup>

Nations have been pillaging other nations' most prized possessions from time immemorial, but the practice was not condemned by the "international community" until well into the 19th century. The 1899 and 1907 Hague Conventions were the first international agreements to call for the protection of cultural property. Two world wars later, with Europe, its monuments and museums in ruins, a strengthened Hague Convention was promulgated in 1954.<sup>4</sup>

The 1954 Convention declared antiquities and other works of cultural property to be the collective heritage of mankind as a whole and thus inviolate. This sat well with the nations who drafted the agreement, as they were primarily "market nations"—nations that imported cultural property, as opposed to "source nations" that had their cultural property removed. The notion that cultural property belonged to all supported market nations' contention that they had just as much right to a given artifact as its country of origin.<sup>5</sup>

Not surprisingly, source nations were displeased with the 1954 Convention and, by 1970, had gained enough influence in the United Nations to push for a new agreement: the UNESCO Convention on the Means of Prohibiting and Preventing the Illicit Transport, Export and Transfer of Ownership of Cultural Property (the UNESCO Convention). Nearly 40 years later, the UNESCO Convention, with over 110 signatories, remains the most important international agreement on the subject of cultural property.<sup>6</sup> Unfortunately, this is not a positive state of affairs, as numerous subsequent proposals have been refused by market nations on the grounds that they were overly restrictive.

Although the UNESCO Convention has succeeded in raising international awareness of the illicit cultural property trade and provided some guidance in efforts to combat the trade, its most significant contribution was the establishment of the year 1970 as the crucial date in resolving the majority of cultural property disputes. The fact that the UNESCO Convention was adopted in 1970 has resulted in a division of the conflicts into "pre-1970" and "post-1970" categories.

It is now standard policy, for example, for nearly all American museums to return objects acquired after 1970,

which pre-1970 provenance (origins and ownership history) cannot be clearly established. However, the same museums usually retain items acquired prior to 1970 precisely because the UNESCO Convention does not apply to such works. To regain such an object, a source country bears the burden of proving the item was looted; museums are not required to demonstrate that it was acquired legally.<sup>7</sup> Consequently, the issue of who “owns” a specific looted antiquity often turns on nothing more than the date the item was looted.

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*“Though the media’s primary focus is on museum links to looted works, in point of fact, museum purchases account for only a fraction of the looted antiquities that change hands every year.”*

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To Italy’s delight, and the Metropolitan Museum’s dismay, the Euphronios krater was acquired after 1970. Had the Met purchased the krater under identical circumstances only a year earlier, it may well have remained at the museum—despite the fact it had been looted. In the latter situation, the most effective weapon in a source nation’s arsenal is not the UNESCO Convention, but the media spotlight. Negative publicity can often serve as a better deterrent than international regulations.

Each new, well-publicized discovery of looted objects in a museum’s collection increases the likelihood that American museums will soon abandon their involvement in the illicit antiquities trade. Such a development

would almost certainly drive news of the antiquities black market off the front pages but, unfortunately, would not significantly affect the market as a whole. Though the media’s primary focus is on museum links to looted works, in point of fact, museum purchases account for only a fraction of the looted antiquities that change hands every year. The vast majority of these works end up in private collections—hidden from the prying eyes of the media and unknown to the general public.

## Endnotes

1. Aaron Kyle Briggs, *Consequences of the Met-Italy Accord for the International Restitution of Cultural Property*, 7 Chi. J. Int’l L. 623, 639–641 (Winter 2007).
2. *Id.* at 641–642.
3. The Association for Research into Crimes Against Art, Art Crime Facts, and <http://www.artcrime.info/facts.htm> (last consulted on April 20, 2009).
4. Captain Joshua E. Kastenber, USAF, *The Legal Regime for Protecting Cultural Property During Armed Conflict*, 42 A.F.L. Rev. 277, 277 (1997).
5. Kevin F. Jowers, *International and National Legal Efforts to Protect Cultural Property: The 1970 UNESCO Convention, the United States, and Mexico*, 38 Tex. Int’l L.J. 145, 147–148 (Winter 2003).
6. *Id.* at 148–149.
7. *Id.* at 153.

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# Some of the Parts, but Not the Sum of the Parts

## A Quick Look at the State of Boxing, Wrestling, and Martial Arts in New York State in the Absence of the Legalization of Mixed Martial Arts, and Whether Mixed Martial Arts Fits in with These Disciplines Under Existing or Proposed Law

By Paul Stuart Haberman

Boxing. Wrestling. Judo. Tae Kwon Do. Karate. Kenpo. The practitioners of the aforementioned disciplines are permitted to participate in matches or exhibitions in New York State under the guidance of either a licensed promoter<sup>1</sup> or a specific organization.<sup>2</sup> What these six disciplines also have in common is that each of them is among the core disciplines that make up the sport known as mixed martial arts (MMA). MMA is also made up of such other disciplines as Sambo, Muay Thai, Shoot Fighting, and Brazilian Jiu-Jitsu, each of which is widely taught at gyms and martial arts academies throughout New York. Unlike its component parts, however, MMA is currently outlawed in New York. That is because, like an increasing minority of its brethren across the United States, the New York State Assembly continues to hold firm in its position that MMA is little more than “human cockfighting.” The question is whether, under the existing laws concerning the aforementioned disciplines in New York State or their proposed amendments, the “human cockfighting” claim is anything more than an outmoded misnomer for a largely reformed and increasingly popular sport.

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*“A ‘combative sport’ is defined as ‘any professional match or exhibition other than boxing, sparring, wrestling or martial arts wherein the contestants deliver, or are not forbidden by the applicable laws thereof from delivering kicks, punches or blows of any kind to the body of an opponent or opponents.’”*

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### MMA Under Existing New York Law

Pursuant to Section 8905-a of the Unconsolidated Laws of the State of New York, MMA is currently regarded as a “combative sport.” A “combative sport” is defined as “any professional match or exhibition other than boxing, sparring, wrestling or martial arts wherein the contestants deliver, or are not forbidden by the applicable laws thereof from delivering kicks, punches or blows of any kind to the body of an opponent or opponents.”<sup>3</sup> Despite the exception seemingly carved out for martial arts in the explicit text of the above provision, only specific

organizations that promote judo, tae kwon do, karate, and kenpo are actually permitted to stage martial arts events in New York.<sup>4</sup> The New York State Athletic Commission (Commission), however, “is authorized to promulgate regulations which would establish a process to allow for the inclusion or removal of martial arts organizations” from its list of approved martial arts organizations.<sup>5</sup> When deciding whether to include or remove such an organization, the Commission is mandated to consider, among others, the following factors:

- (a) Is the organization’s primary purpose to provide instruction in self defense techniques?
- (b) Does the organization require the use of hand, feet and groin protection during any competition or bout?
- (c) Does the organization have an established set of rules that require the immediate termination of any competition or bout when any participant has received severe punishment or is in danger of suffering serious physical injury?<sup>6</sup>

If a given discipline and its organization fail to satisfy the above factors and other criteria that may be utilized on a case-by-case analysis, it is deemed a “combative sport,” shall not “be conducted, held or given within the state of New York[,]” and may not “be approved by the commission for such matches or exhibitions.”<sup>7</sup> Employing the above factors, an analysis of MMA, using the Ultimate Fighting Championship (UFC) as the sample organization, follows. It should be noted, however, as will be discussed more below, that MMA should not necessarily be subjected to the existing restrictions of § 8905-a in the first instance.

### Is the UFC’s Primary Purpose to Provide Instruction in Self Defense Techniques?

The answer to this first question is a resounding no. What the UFC does is promote, organize, and award championships by weight class in large-scale MMA events. The participants in the UFC’s MMA events are among the most accomplished practitioners in the world of the above-referenced disciplines. In short, participation in the UFC is the end result of many years of association with an organization, academy, camp, or training facility whose “primary purpose” is “to provide instruction in self defense techniques.” Yet the UFC itself does not have

the teaching of various martial arts as its primary purpose. However, the UFC recently announced its intention to start providing instruction in self-defense techniques through the launching of its own gyms.<sup>8</sup> The development of these gyms could ultimately blur the answer to this particular inquiry under § 8905-a.

### Does the UFC Require the Use of Hand, Foot, and Groin Protection During Its Bouts?

Mixed martial artists who participate in the UFC are only permitted to wear UFC and athletic commission-approved four-to-six ounce gloves that are designed to protect the hand, yet not large enough “to improve the striking surface or weight of the punch.”<sup>9</sup> Shoes are not allowed because of the problems that they create in grabbing your opponent.<sup>10</sup> Furthermore, although groin protection is not explicitly addressed in the equipment section of UFC’s Web site, it’s known that the UFC’s male competitors are mandated to and routinely wear the same.

### Does the UFC Have Rules with Regard to Stopping Contests When Participants Have Received Severe Punishment or Are at Risk of Serious Physical Injury?

There are eight ways to win a bout as a UFC participant.<sup>11</sup> Among the eight are a “[t]echnical knockout by the referee stopping the contest[,]” submission by both physical and verbal tap out, and disqualification.<sup>12</sup> In short, then, a referee may rescue a participant who has received severe punishment or is at risk of serious physical injury by either calling his opponent the winner by technical knockout or the loser by disqualification, and a participant may rescue himself by tap out submission. Additionally, it appears that it is within the referee’s discretion as to whether he wishes to disqualify someone who is taking significant physical punishment or is at risk of serious physical injury in the event of corner interference or the throwing in of a towel during the competition. Both are specifically enumerated fouls under the UFC Rules.<sup>13</sup> The UFC Rules, therefore, contain several provisions designed to minimize the physical punishment sustained in a MMA contest.

### Is MMA a Neat Fit in New York State Under the Existing Laws?

As demonstrated above, the UFC and its rules are in textbook conformance with only one of the three factors listed under § 8905-a. It is beyond question that the UFC has extensive rules with regard to stopping contests when participants have received severe punishment or are at risk of serious injury. However, the UFC is neither an organization whose primary purpose is to provide instruction in self-defense techniques at this time nor one that requires the use of foot protection during its competitions. In fact, its rules expressly ban the wearing of any footwear. Having said that, there are several other facts to consider before declaring the UFC unworthy of designa-

tion as an organization where participants should be permitted to compete in a legally recognized exception to “combative sports” in New York.

To begin, MMA counts professional boxers and wrestlers among its participants. Unlike their martial arts counterparts, boxing and wrestling are not confined to a select few organizations that are permitted to stage fights in New York. Instead, they simply require a licensed promoter.<sup>14</sup> As the law is phrased in New York, MMA is a hybrid discipline. The presence of wrestlers and boxers in MMA allows the New York State Assembly wiggle room to decide whether it should be regarded in the same way as boxing, sparring, or wrestling exhibitions, or whether it should instead be regarded in the same manner as martial arts and be required to have specific organizations stage its shows.

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*“Given its fusion of various disciplines, it seems almost impossible to assign MMA to either § 8905 or § 8905-a.”*

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If MMA were added to § 8905 of the Unconsolidated Laws of the State of New York, the section that authorizes boxing and wrestling matches and exhibitions, the UFC would not have to satisfy the three factors noted above, or any others, in order to be permitted to stage shows. It would simply need a promoter’s license. However, if MMA were not added to § 8905, the UFC runs into an immediate problem under the first factor of the § 8905-a inquiry. Given its fusion of various disciplines, it seems almost impossible to assign MMA to either § 8905 or § 8905-a. “Martial arts” may be part of its categorical designation and its catchall term, but by design, MMA does not fit under either section with certainty.

Further, MMA is, by definition, a mixture of various disciplines. Many of those disciplines do not require or even allow their own participants to wear anything on their feet during their competitions.<sup>15</sup> Therefore, if the individual disciplines are permitted to stage professional matches or exhibits in New York without footwear, it begs the question of why MMA would or should be held to a different standard under the second factor of the § 8905-a inquiry.

Finally, it should be noted that the process to allow for the inclusion or removal of martial arts organizations from New York’s approved list, to the extent that the UFC should be treated the same as the other organizations under § 8905-a to begin with, “shall include but not be limited to the consideration” of the three factors cited above. In other words, the phraseology of § 8905-a allows the Commission to contemplate any number of other aspects in deciding whether to add the UFC and other organizations that stage MMA events to its approved list in the absence of any amendments to the law. To date, the other

aspects the Commission has considered would appear to include political pressure and hotly disputed widespread perceptions about the current level of brutality in MMA, as it continues to be outlawed.

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*"[A]s the law now exists, the Commission continues to be compelled to shoehorn MMA into the 'combative sport' category and mandate that organizations such as the UFC establish the existence of the same factors as traditional martial arts organizations that it already permits to stage events."*

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### MMA in New York State Under the Proposed Amendment to § 8905-a

The recent proposed amendment to § 8905-a, introduced on January 27, 2009, reads in relevant part, that:

[a] "combative sport" shall mean any professional match or exhibition wherein the contestants deliver, or are not forbidden by the applicable rules thereof from delivering kicks, punches or blows of any kind to the body of an opponent or opponents. However, "mixed martial arts" shall not be included in the definition of combative sport. "Mixed martial arts" shall mean the utilization of permitted martial arts techniques, including striking and grappling.<sup>16</sup>

The fact that the proposed amendment is phrased in such a way as to explicitly carve an exception for MMA in addition to those already made for boxing, wrestling, and martial arts is an acknowledgement that at least certain members of the New York Assembly recognize that it does not fit either existing category, as demonstrated above. However, as the law now exists, the Commission continues to be compelled to shoehorn MMA into the "combative sport" category and mandate that organizations such as the UFC establish the existence of the same factors as traditional martial arts organizations that it already permits to stage events. Under a strict interpretation of those factors, the UFC cannot. That is why New York now allows for some of the component parts that make up MMA to stage professional matches or exhibitions in New York, but not the sum of its parts, MMA itself.<sup>17</sup>

### Endnotes

1. See Unconsolidated Laws of the State of New York, Title 25, Chapter 1 § 8905.
2. *Id.* at § 8905-a.
3. *Id.*
4. *Id.* The list currently consists of U.S. Judo Association, U.S. Judo, Inc., U.S. Judo Federation, U.S. Tae Kwon Do Union, North American Sport Karate Association, U.S.A. Karate Foundation, U.S. Karate, Inc., World Karate Association, Professional Karate Association, Karate International, International Kenpo Association, and World Wide Kenpo Association.
5. *Id.*
6. *Id.*
7. § 8905-a(2).
8. <http://www.ufc.com/index.cfm?fa=news.detail&gid=17384> (last visited May 29, 2009).
9. The UFC © Fact Sheet, available at <http://www.ufc.com/index.cfm?fa=LearnUFC.FactSheet#section6> (last visited May 29, 2009).
10. *Id.*
11. *Id.*
12. *Id.* The other methods of winning are: (1) a decision via scorecards, (2) a technical decision, (3) a technical draw, (4) forfeit, and (5) no contest. It should be noted that two of these methods of "winning," by technical draw and by no contest, are generally not regarded as wins on an athlete's record in other sports, such as professional boxing.
13. *Id.* It should be noted that the UFC Rules have been approved by the Nevada State Athletic Commission.
14. 19 N.Y.C.R.R. § 206.7 ("No . . . promoter . . . shall engage, in any way, either directly or indirectly, in boxing or wrestling contests or exhibitions in this State unless he or she shall have first procured the appropriate license or permit from the commission.").
15. Participants are not allowed to wear razors on their legs, either. So much for the "human cockfighting" analogy! Further, milk cannot be poured on a participant's skin or coat, so a "human dog fighting" analogy would be similarly inapposite.
16. <http://assembly.state.ny.us/leg/?bn=A03439&sh=t> (last viewed May 29, 2009).
17. Since the completion of this article, the New York State Assembly's Committee on Tourism, Arts, and Sports Development voted to pass the bill that would empower the New York State Athletic Commission to regulate MMA. It is now scheduled to move on to the full Assembly for a vote before the end of the legislative session. See *MMA Moves Closer to Reality in New York*, Associated Press, June 4, 2009, available at <http://www.newsday.com/news/local/newyork/ny-spufc0604.0,3426324.story> (last visited on June 9, 2009).

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# The Evolution of Sports Agents: Adversarial Versus Collegial Negotiating Styles and Relationships

By Stacey B. Evans

*Negotiating is, for most, an uncomfortable attempt at impromptu haggling. For the [skilled negotiator], it is a planned sequence of predictable objections and responses that can be orchestrated to produce the desired outcome. It's like planning three or four moves ahead in chess, forcing an opponent to put themselves in checkmate.*

—Timothy Ferris

Knowing how to effectively negotiate is one of the most important skills of a sports agent. A sports agent is defined as “a person who procures and negotiates employment and endorsement deals for an athlete. In return, the agent receives a commission that is usually between three and 10 percent of the contract, although this figure varies.”<sup>1</sup> Open for debate is whether an attorney-agent is more beneficial to a client than a non-attorney agent. Athletes may not be enticed by an added degree or deterred by the absence of one. With the relatively short shelf life of the professional athlete, in the vein of Cuba Gooding Jr.'s character in *Jerry Maguire*, many clients are now yelling “Show me the money” and may not care about the educational credentials of the person successful in showing them that money. They should.

Scholars and laypeople have spent years debating whether an agent with a law degree is more beneficial to an athlete than an agent who does not have the added credential. Players are often swayed by sales pitches by agents as to who can offer the most money, and they do not always pay attention to who is the most qualified. They are often influenced by the promise of photo shoots and video game covers, with little regard as to whether they will actually ever make it to a cover. This article will analyze the ever-expanding role of agents in professional sports, touch upon the ethical issues plaguing today's sports agents, and offer a comparative analysis of different styles of contract negotiation. Although there is no single definition of what the attributes would be of the ideal agent, or the ideal negotiating tactic, athletes would be wise to educate themselves and not rely as much on their entourages.

The term “sports agent” often brings about images of sleazy, money hungry individuals. Michael Jordan's agent, attorney David Falk, once said, “Stating that you are an agent is like saying you're a bank robber or a rapist.”<sup>2</sup> Many team owners and fans believe that player greed, encouraged by agents, is ruining professional sports. Today's sports culture sees more and more agents persuading their clients to opt-out of their current contracts in order to make more money, which means more money for the agent. Since there is no federal law regulating sports agents, it is up to each professional league and players' union to assure that agents meet an ethics standard and act in a manner that is in the best interest of their respective sport.

## The Use of Sports Agents in Player Negotiations Background

Today, agents need to be imaginative in negotiating player bonuses, no-trade clauses, guaranteed contracts, and multi-year deals. Additionally, agents may negotiate for other benefits, such as single occupancy rooms during road trips, higher food allowances, the use of private jets, or the number of seats allocated to family members on the road and at home.<sup>3</sup>

However, player contracts were not always so lucrative. Legendary Major League Baseball (MLB) player Ralph Kiner played during the 1940s and 1950s, a time in which there were no agents and no attorneys to assist players in negotiating contracts with their teams. Contract negotiations took place strictly between the ballplayer and his team's general manager. As Kiner recalls, “Your own mother would not be allowed in the meeting to negotiate the contract with you.”<sup>4</sup> The team owner had the ability to control negotiations, because players had no one to aid them in the contract-negotiating process. In that era, a player signed a baseball contract for life.<sup>5</sup> There was no such thing as a no-trade clause, so a player had three choices—agree to the contract, be traded, or not play baseball.

In 1952, Kiner went to a meeting with the MLB Executive Council and brought his attorney to the meeting. Kiner was asked what the gentleman was doing in the room, and when Kiner responded that he was his attorney, the Council members said, “No way. He cannot attend the meeting.”<sup>6</sup> Kiner walked out of the meeting and a lengthy bargaining impasse followed.<sup>7</sup>

The lack of player autonomy led to the development of the MLB Players Association (Players Association), founded in 1968. In 1970, the Players' Union negotiated for players to have the right to have agent representation of their choosing during individual contract negotiations.<sup>8</sup> This was an important move for MLB players, as they did not have the skills and knowledge to negotiate contracts.

Billy Cannon was an All-American football player at Louisiana State University in the 1950s. Cannon was drafted by the Los Angeles Rams in the 1960 National Football League (NFL) draft.<sup>9</sup> Cannon signed three standard player contracts.<sup>10</sup> After signing his contracts with the Rams, a representative from the Houston Oilers

of the new American Football League (AFL) contacted Cannon.<sup>11</sup> Cannon sent a letter to the Rams stating that he no longer wished to play for them, and returned the money he had been given.<sup>12</sup> The Rams sought an injunction to prevent Cannon from playing in the AFL.<sup>13</sup> The Southern District of California allowed Cannon to breach his contract, saying that since he was not represented by an agent or attorney during contract negotiations, he was susceptible to the tricky tactics of a team's general manager.<sup>14</sup> Courts have found that "amateur athletes need agent representation in order to protect their interests and match the negotiating skill of a general manager or member of a professional team."<sup>15</sup>

In a typical collective bargaining agreement, the freedom to contract individually is sacrificed for the good of the group. Salary terms and other conditions of employment exist for all members. Professional team sports provide an exception to the typical collective bargaining agreement. Individual contracts exist in the sports industry because player associations have waived their "exclusive right to negotiate salaries for individual players above the minimum salaries negotiated collectively on behalf of all players."<sup>16</sup> Professional athletes possess a wide range of talents and abilities and are compensated accordingly. In football, for example, a quarterback is typically compensated at a higher rate than an offensive lineman or a punter.

If any of the professional sports leagues employed a typical collective bargaining agreement, there would not be as much flexibility to negotiate an individual player's salary. The NFL utilizes a rookie pool, which has a set amount of money that may be used for first-year players. While agents are helpful in negotiating roster or signing bonuses, the collective bargaining agreement uses a *de facto* slotted pay scale, "which involves paying draft choices the same amount of money received by the player drafted in the same position or slot in the previous draft, plus a percentage raise to reflect inflation."<sup>17</sup> An agent who touts that he or she can get an NFL draftee the most amount of money is not being entirely truthful with the client, when the funds are coming from a finite pool that is largely predetermined based on draft number.

## The Growing Role and Questionable Ethics of Sports Agents

Competition among agents has created an intense pressure to negotiate contracts for big-name athletes. Where the original function of sports agents was solely to negotiate contracts for players, the role is greatly expanding. Many agents now serve as financial managers, public relations specialists, investment and tax experts, and legal counsel: "Most athletes do not want to be troubled with the vagaries of engaging disparate individuals to provide them with various services when they can have one firm provide them all."<sup>18</sup>

The big money of the industry has caused several agents to go to unscrupulous measures to make the most money possible. In some instances, agents are not interested in the best possible playing scenario for their clients, but instead, how they personally can make the most amount of money possible: "The only concern is the almighty dollar, both for the player and the agent, which turns athletics into a business full of overpaid egomaniacs more concerned with the best contract or endorsement deal than with the game itself."<sup>19</sup> Depending on the collective bargaining agreement of the league, agents stand to make anywhere from 3 percent to 10 percent commission on players' negotiated contracts. On Alex Rodriguez's record 10-year, \$275 million deal with the New York Yankees signed in early 2008, attorney-agent Scott Boras stands to make \$14 million over the course of the contract.<sup>20</sup>

Ethics plays a large part in the agent industry. Unfortunately for the agents who are not also attorneys, there are no mandated ethical codes of conduct to follow. There has even been a dispute among attorneys as to whether they should be held to the Model Rules of Professional Responsibility if they are not engaging in the practice of law while representing an athlete. Yet this view has been challenged: "As long as a lawyer is engaged in the practice of law, he is bound by the ethical requirements of that profession, and he may not defend his actions by contending that he was engaged in some other kind of professional activity."<sup>21</sup> If a player changes agents in the middle of a contract, the agent who actively negotiated the contract is the beneficiary of the commission. This leads to the following questionable practice: Where are the ethics when attorney-agents such as Drew Rosenhaus or Scott Boras encourage clients to opt out of contracts that they did not negotiate in favor of new contracts in which they would collect hefty commissions?<sup>22</sup> This most recently happened with baseball's Manny Ramirez, a Boras client.

Agents do not determine the market for a player in a sports league; that is largely a result of team needs and how a team views the free agent marketplace. Sometimes an agent badly misreads the marketplace, at great cost to a client. After the 2008 baseball season, star player Manny Ramirez became a free agent. He turned down several lucrative short-term offers based on the advice of his agent Scott Boras, who was convinced that Manny could get a longer contract. As of February 2009, with Manny unsigned, it became clear that he would not be receiving the massive contract that he initially sought. In March 2009, Manny signed a two-year, \$45 million contract with the Los Angeles Dodgers, which included a whopping \$25 million of deferred monies.

In 2005, Terrell Owens was a star wide receiver for the Philadelphia Eagles. Attorney Drew Rosenhaus became Owens's agent in the middle of his contract and, as a result, did not collect any commission from that deal.



Rosenhaus convinced Owens he was not being paid fair market value in order to entice him to hold out until a new contract was offered. The Eagles refused to renegotiate the contract, and Owens's and Rosenhaus's actions proved to be a major distraction to the team. The Eagles suspended its star receiver for four games, and a new Web site "firedrewrosenhaus.com" emerged. Owens ultimately signed with the Dallas Cowboys.

When football is a team sport, how does an agent justify a player's selfishness? Even more troublesome, how does an agent justify his or her own selfishness? Owens's antics have continued to haunt him. The wide receiver was recently cut by the Dallas Cowboys. If Owens is not making money, neither is Drew Rosenhaus.<sup>23</sup>

Athletes may be easily duped into the promise of a big payday or endorsement exposure. It is an industry that does not place a premium on loyalty, but instead plays by the motto, "What have you done for me lately?" In fact, most players do not realize that their contract negotiations are driven more by their own abilities than by the abilities and skills of their agents.<sup>24</sup> A player's contract has very little to do with the negotiating agent. It is success on the field, court, or ice that leads to a more lucrative contract. Certified baseball and basketball agent Keith Kreiter comments: "Every contract is just a form agreement. My plumber could negotiate a first-round pick's contract as good as the next negotiator in the country can."<sup>25</sup>

The best agents "can and should be able not only to provide the player with the information necessary to evaluate and reject a low offer, but also to push the team to its upper limit or highest offer."<sup>26</sup> The separation between good agents and great agents comes in the structuring of playing bonuses, escalator clauses, and other incentives.

Agents who adhere to an ethical code risk being pushed out of the business by more unethical or nefarious agents. Athlete poaching has become common practice with no real legal remedy. In *Speakers of Sport, Inc. v. Proserv, Inc.*, the Seventh Circuit said that "there is generally nothing wrong with one agent attempting to acquire an athlete from another as long as it can be done without inducing a breach of contract."<sup>27</sup> Most courts believe that fierce competitiveness is the cornerstone of the free market economy. Except in extreme circumstances, agents are not disciplined for soliciting another's clients.<sup>28</sup> Even if a court or players' union tried to bring charges against a poaching agent, it is difficult to prove, and players have little incentive to complain about an unethical agent. Often "players have no interest in testifying against their current agent who improperly solicited and stole them from their previous agent,"<sup>29</sup> especially when the poaching agent has treated them to fancy dinners and lavish gifts.

In 2003, NFL attorney-agent David Dunn was suspended by the NFL Players Association (NFLPA) for two

years for trying to steal clients from his former partner, Leigh Steinberg.<sup>30</sup> Dunn left Steinberg's agency, Steinberg, Moorad and Dunn Inc., to launch a competing firm, Athletes First, and took approximately 50 NFL players with him. In doing so, he destroyed the firm that dominated pro football for 20 years.<sup>31</sup> Steinberg sued and was awarded \$44.6 million in damages, which was overturned by an appeals court. When the NFLPA suspended Dunn, he filed for personal bankruptcy, halting all administrative actions against him.<sup>32</sup> David Dunn was called out by players and, therefore, was at risk of losing his ability to represent them.

In 1983, the NFL became the first professional sports league to regulate agents.<sup>33</sup> Individuals wishing to be certified as NFL contract advisors must take a test and fulfill other requirements.<sup>34</sup> Teams cannot negotiate a player's contract with an uncertified agent. The test includes questions based on the collective bargaining agreement, salary cap and the free agency system. Potential agents who fail this exam may be suspended or decertified by the NFLPA.

Some states have agent regulation acts aimed at protecting student-athletes.<sup>35</sup> Many rookie athletes are too trusting and vulnerable when negotiating their first contracts with agents. One problem is that if an agent is not an attorney, a player cannot bring suit against him or her for malpractice. Although a players union may require an agent to carry professional liability insurance, there is no requirement for malpractice insurance. The National Collegiate Athletic Association's (NCAA) guidelines specify that a student-athlete may receive advice from an attorney regarding a proposed professional contract, but that that attorney may not represent the athlete in negotiation.<sup>36</sup>

## Conflicts of Interest: When Zealous Advocacy Is Forgotten

### Representing Multiple Clients

A conflict of interest occurs when a duty owed to one party is "compromised by a separate interest or agreement with a third party."<sup>37</sup> Conflicts of interest may arise if an agent represents two players who either play the same position or play for the same team and both are trying to negotiate new contracts.<sup>38</sup> Attorney-agent David Falk encountered this problem in 1996. He represented a top basketball player in Juwan Howard and tried to negotiate a deal with the National Basketball Association's (NBA's) Miami Heat. When that deal fell through, Falk was able to secure a contract with the Washington Bullets. In doing so, Falk neglected one of his average players, Rex Chapman, who wanted to re-sign with the Miami Heat but was unable to do so.<sup>39</sup> If an agent gets a higher contract for one player, it may cause a rift in the athlete-agent relationship with the other player or may slight the average player in favor of the superstar client.

In the case of rookie NFL players, an agent may be trying to negotiate two contracts from a finite pool of money. The more salary cap room taken up by one player, the less money available for the other. In 2006, Jay Cutler was a quarterback entering the NFL draft from Vanderbilt University. He hired James “Bus” Cook, a licensed attorney, to represent him as his agent. Cutler and his family told Cook that they did not want him to represent another top quarterback, a reasonable request of a player desiring his agent to be looking out for his best interests.<sup>40</sup> Despite the request, Cook signed University of Texas quarterback Vince Young to a representation agreement.<sup>41</sup> Young was drafted third by the Tennessee Titans,<sup>42</sup> Cutler was drafted 11th by the Denver Broncos.<sup>43</sup> It is unclear how Cook could effectively represent both players, as they were vying to be drafted by the same teams.

Quarterback Kellen Clemens was drafted in the second round of the 2006 NFL Draft by the New York Jets. In the three seasons that Clemens has been a part of the team, he has yet to permanently procure the starting quarterback job. After serving as the backup to veteran quarterbacks Chad Pennington and then Brett Favre, it seemed that 2009 would finally be Clemens’s opportunity to be the Jets regular starter. Then, on April 25, 2009, the New York Jets made a trade with the Cleveland Browns in order to secure the fifth overall pick in the NFL Draft.<sup>44</sup> With that selection, the Jets selected University of Southern California quarterback Mark Sanchez.<sup>45</sup> As if this was not devastating enough to Clemens’s chances to cement his place as the Jets starting quarterback, Sanchez and Clemens were both represented by the same attorney-agent, David Dunn.

Unquestionably, it is an agent’s job to ensure that a client gets drafted as high as possible. An agent helps develop the buzz around a player. The higher the player is drafted, the more lucrative will be the initial contract. In the Clemens-Sanchez instance, not only is one agent representing two clients on the same roster, but two *quarterback* clients who are vying for the *starting* job. When does representing one client take away from zealous advocacy on behalf of another client? Not only are players contracted through a finite pool of money, but in this instance, only one of the two players can win the starting quarterback job.

### Without Trust, There Is Nothing

The relationship between athlete and agent is based on trust. Athletes spend a great deal of time evaluating representatives to choose the right one. Unfortunately, sometimes vetting is not enough and athletes find themselves misguided, lied to, and defrauded. Ebenezer Ekuban was a first-round draft pick of the Dallas Cowboys in 1999. Ekuban’s non-attorney agent, Sean Jones, misdealt finances and tied up Ekuban’s money in faulty real estate loans totaling more than \$1 million.<sup>46</sup> Jones also encouraged Ekuban to lend him \$300,000, which was never repaid.<sup>47</sup> Despite the millions of dollars earned through

salary and signing bonuses, Ekuban found himself in a precarious position in which he said he could not even “rent a car because my credit is so bad . . . I’m making good money and I can’t rent a car.”<sup>48</sup> Ekuban was forced to file for bankruptcy. Although the NFLPA originally voted to de-certify Jones, the punishment was eventually reduced to a two-year suspension.

Sometimes conflicts with agents lead to lawsuits, as was the case with late Hall of Fame football player Reggie White. White spent eight years as a defensive end for the Philadelphia Eagles.<sup>49</sup> He was voted by ESPN SportsNation as the greatest player in Eagles’ franchise history, despite a messy divorce between player and team.<sup>50</sup> During his time with the Eagles, White was represented by non-attorney agent Patrick Forte. While Forte was negotiating a new contract between White and the Eagles, he was also negotiating for himself to become the assistant to Eagles’ president, Harry Gamble.<sup>51</sup> White filed suit in U.S. District Court seeking \$1.5 million from Forte.<sup>52</sup> White alleged that Forte neglected to tell him about an option year on his contract. White charged that Forte “pursued his [Forte’s] employment with the Eagles at the same time that he was ostensibly representing the best interests of White.”<sup>53</sup> The suit was dropped when White was able to come to a contract agreement with the Eagles, but his relationship with the team was irreparably cracked.<sup>54</sup> In 1993, White left the Eagles as a free agent to join the Green Bay Packers.<sup>55</sup>

William “Tank” Black is another example of a non-attorney sports agent who allowed greed and unethical behavior to stand in the way of the job. Black was certified as a player-agent with both the NFL and NBA. Yet he misappropriated more than \$14 million from his clients.<sup>56</sup> Black was convicted in Florida of fraud, conspiracy, and obstruction of justice charges, for which he spent five years in jail. One of Black’s clients, Fred Taylor, was drafted ninth by the Jacksonville Jaguars in the 1998 NFL Draft. Taylor selected Black because of his ability to work with people and foster personal relationships. At Black’s trial, Taylor, who had been swindled out of his \$5 million signing bonus, sat on the witness stand crying: “I agreed with everything he said . . . I trusted him with my life, with my daughter’s life.”<sup>57</sup> Black abused the position of trust and confidence that he enjoyed with his clients and acted as an unregistered investment adviser and unregistered broker-dealer, in violation of the Securities and Exchange Commission.<sup>58</sup>

If consistent professional rules of conduct were in place for sports agents, there would be a set standard to which every player representative would be held. With sports being a billion dollar industry, someone must be held accountable in order to protect the athletes’ best interests. Bad business advice may leave an athlete unprepared to wisely invest the money he or she has earned during his or her playing days, money that in many cases must last for the duration of the athlete’s life. A number of

states have passed legislation that requires agent registration. However, enforcement by states has been “uneven and unpredictable.”<sup>59</sup> Agent regulation continues to be a business and legal battleground.

### The Power of Nice: Ron Shapiro

Ron Shapiro has been in the sports agent business for more than 30 years. He is a *cum laude* graduate of Harvard Law School. In 1995, he founded the Shapiro Negotiations Institute, designed to teach the art of negotiation, dealing with difficult people, and enhancing listening skills.<sup>60</sup> During his career, Shapiro has negotiated over \$1 billion in contracts, all while being known as “one of baseball’s most respected attorney-agents” and one of the top win-win negotiators.<sup>61</sup> Shapiro has represented a number of Hall of Fame clients, including Eddie Murray, Jim Palmer, Kirby Puckett, Cal Ripken, Jr., and Brooks Robinson.

In 1999, when the MLB umpires were uncomfortable with the hardball tactics employed by their union leaders, they turned to Shapiro for help.<sup>62</sup> The same thing occurred with the San Antonio Spurs when the NBA team encountered difficult contract negotiations. Shapiro has been so successful because of his “be nice without being soft” negotiating style.<sup>63</sup> Unlike some of his foes in the industry, Shapiro does not go into contract negotiations ready to go to war. He feels there is a benefit to building long-lasting relationships and allowing both sides to achieve what they want.

Shapiro believes that it is possible to come away from a negotiation with both sides winning: “If all you have in your toolbox is a hammer, then every problem looks like a nail. The same holds true for negotiation. More tools enable you to solve more problems.”<sup>64</sup> A successful negotiator prepares, probes, and proposes: “When I am getting ready to reason with a man, I spend one-third of my time thinking about myself and what I am going to say, and two-thirds thinking about him and what he is going to say.”<sup>65</sup> In negotiating a contract for Brooks Robinson with the Baltimore Orioles, Shapiro read, dug, scoured, researched, referenced, and cross-referenced in order to learn everything he could about the Orioles.<sup>66</sup> This sort of preparation enables Shapiro to go to the negotiating table able to support his contract requests.

To Shapiro, negotiation is not a zero sum game in which one side has to win and the other side loses: “In such games, there is no incentive to cooperate with opponents because every inch given to them is an inch lost.”<sup>67</sup> Shapiro views effective negotiating as building relationships that will lead to more deals: “If you burn bridges, destroy the other side, squeeze the last buck out, ‘take no prisoners’ you can’t expect the other party to want to do business with you again. They’ll run from the negotiating table, let alone consider returning to it.”<sup>68</sup> When an agent is able to build a relationship with team management, the two sides are likely to return to the negotiating table with other athletes.

Shapiro says: “Every negotiation takes place in an environment. It means the feelings, sensitivities, tensions, fears, and hopes that comprise the atmosphere of negotiation. They make up the environment as much, or more so, than the four walls, table, and chairs.”<sup>69</sup> If you reach an impasse with a party that you do not have a relationship with, you are more likely to let the impasse stand. However, if you have built a relationship over time with the other party, you are going to look for ways to move beyond the deadlock.<sup>70</sup> Relationships can accomplish what acquaintances cannot.

Donald Fehr, the Executive Director of the MLB Players Association and a graduate of the University of Missouri–Kansas City School of Law, said: “I can testify to the high regard in which [Shapiro] is held, as a negotiator and as a person, by me and by many others.”<sup>71</sup> Executives, players, and umpires in baseball are almost unanimous in their respect and admiration for Shapiro’s negotiating style.

When a longtime Shapiro client, Hall of Famer Cal Ripken, was 18, he was an up-and-coming baseball player wooed by a lot of agents. Many of them promised Cal that they would get him to the big leagues faster, get him more endorsements, or get him a more lucrative contract. They tried to entice him with fancy dinners and limo rides. Ron Shapiro’s approach to Cal was different than other agents. Shapiro invited Cal to his office instead of an expensive restaurant. Shapiro listened to what Cal wanted and needed rather than promising him the moon. Of Shapiro, Cal has said: “People think agents are aggressive, blood-thirsty sharks, who will promise anything to cut a deal. These stereotypes may be true in some cases, but I hope my career proves there are exceptions. I know Ron Shapiro disproves this theory in his profession.”<sup>72</sup> Being the ultimate nice guy has served Shapiro well in his career. His style in dealing with Ripken has led to a relationship that has spanned more than two decades.

According to Shapiro, some of the best deals are struck by creating a rapport with the person sitting across the negotiating table: “You’ll capture more money with honey than a bland old pie chart . . . people seldom remember who gave the pithier speech in a business meeting—but they do remember who smiled more.”<sup>73</sup> Treating your opponent as an equal as opposed to an opponent in war helps lead to deal after deal.

### A Shark Never Sleeps: Drew Rosenhaus

Brash, unethical, deceitful, representative of the dark side, a cancer, a low life—these are some of the adjectives that have been used to describe NFL attorney-agent Drew Rosenhaus.<sup>74</sup> As a 22-year-old graduate of the Duke University School of Law, Rosenhaus became the youngest certified NFL agent.<sup>75</sup> Players love him because of his tenacity on behalf of clients. He will stop at nothing to show his players the money. Team personnel often loathe

negotiating with him. Other agents think that he has single-handedly ruined the industry. Rosenhaus has also negotiated over \$1 billion in player contracts.

Unlike Shapiro, Rosenhaus's contract success has come by employing a take-no-prisoners style of negotiation. Rosenhaus's office is in Miami, Florida, where he has a pet shark: "A shark is a relentless predator that is goal-oriented and focused on its objective around the clock. It never rests, it never waivers, it is always on the clock. That's how we are."<sup>76</sup> In fact, Rosenhaus's autobiography is titled *A Shark Never Sleeps: Wheeling and Dealing with the NFL's Most Ruthless Agent*. Rosenhaus prides himself on the personal touch he offers all clients. He does not employ a secretary and the phones are always answered by him or his brother Jason (who is also a certified NFL agent).

Veteran NFL attorney-agent David Ware has said:

Drew tells a player that he's worth more money, that his agent is not doing enough for him, that he's better than the guy starting in front of him. Now the player is not only mad at his agent, he's mad at the team management. He sees the guy sitting in front of him as a co-conspirator.<sup>77</sup>

Denver-based attorney-agent Peter Schaffer has said:

I believe that we are professionals and are hired to represent professionals in an honest and ethical manner. And anybody that doesn't do that and plays to that level hurts our business, hurts the players and our clients, and hurts the reputation that we worked long and hard to try to create.<sup>78</sup>

Although Rosenhaus has been accused of falsifying information and lying to improve his negotiation position, the NFL Players Association has never been able to prove these allegations.<sup>79</sup> Former NFL attorney-agent Tim Irwin once stood up at an agent meeting and said: "There is a cancer growing in our profession. I would not allow him to represent my son."<sup>80</sup> Despite the harsh criticisms he has received, team personnel will begrudgingly negotiate with him if he represents a player that the team strongly covets.

Rosenhaus has said that he would do almost anything to gain a competitive advantage over his fellow agents. One of Rosenhaus's more criticized stunts came during the 2003 NFL Draft with University of Miami running back Willis McGahee. McGahee was projected as a top-five draft pick before tearing knee ligaments in the Fiesta Bowl. With McGahee's draft prospects quickly slipping and before a national television audience, McGahee's phone rang shortly before the end of the first round. It was later revealed that Rosenhaus was on the other end of the line, not a member of the management of a team in-

tent on drafting McGahee. This was a ploy to make teams believe that others were interested in McGahee. McGahee was selected by the Buffalo Bills with the 23rd pick in the first round of the draft. Rosenhaus's adversaries say: "Such tactics destroy an agent's credibility. The best deals are made on mutual trust, not deception."<sup>81</sup> Teams will never hear Rosenhaus apologize for the way he does business. In his opinion, his moves are done to meet the goals of his clients.

Even if other agents and team personnel are not Rosenhaus fans, his clients often swear by him. Former Buffalo Bills' offensive guard Jamie Nails said: "Drew treats his clients in a first-class fashion . . . is always looking out for you. He cares and he's always there when you need him."<sup>82</sup> Rosenhaus has received a lot of criticism for encouraging players to hold out of training camp while trying to renegotiate a contract. In Rosenhaus's view, "when a player outperforms his contract, why is it not okay for him to get a readjustment in his favor?"<sup>83</sup> In his view, since a team can cut a player at any time and not owe the remainder of his or her contract, a player should also be able to better his or her position with good performance. Rosenhaus does not see himself as a tyrant or a tough negotiator: "I want to be viewed as a guy who can make a deal. Once I get what's fair, I pull the trigger."<sup>84</sup> Rosenhaus thinks that teams can play hardball as well as an agent can. His \$1 billion worth of contracts shows that his negotiation tactics, while not always ethical, do yield results.

For all the success Rosenhaus has enjoyed in his career, he has also had serious missteps. Errict Rhett was a running back for the Tampa Bay Buccaneers. He was unhappy with the \$336,000 he was set to earn during the 1996 NFL season. Under Rosenhaus's advice, Rhett sat out for the first 93 days of the season, hoping to secure a more lucrative contract from the Buccaneers. During training camp he had rejected a six-year, \$14.1 million contract. When Rhett finally ended his holdout, rather than have a new contract, he had a bill for \$5,000 per day in fines; this came out to \$465,000. Instead of being paid to play, Rhett found himself owing the Buccaneers \$129,000. At the time, writer Bryan Burwell said: "There are migrant farm workers who have a better deal than this, and the last time I checked, they didn't have . . . *The Most Hated Man in Football* representing them"<sup>85</sup> (emphasis added). Rosenhaus lost a client, and Rhett irreparably damaged his career and reputation.

For all his negotiating successes (and pitfalls), Rosenhaus also has a lifestyle that many people would not envy. Rosenhaus is ready to play hardball at a moment's notice; he has two cell phones on him at all times and the numbers of all NFL general managers on speed dial. He works seven days a week, 19 hours per day. He is not married, has no children, and does not take vacation.<sup>86</sup> His career is his wife and his family.

## The Ramifications of Agent Miscalculations

For a young and inexperienced athlete, an agent is a key figure in the transition from being an amateur to a professional: “The athlete-agent relationship is typically one of unequal power; the agent dominates the athlete, who is completely dependent on the agent for business advice.”<sup>87</sup> A young athlete is ill-equipped to make his own negotiations and often takes a leap of faith in selecting representation, unable to distinguish significant differences between competing agents.

NASCAR driver Kyle Busch learned a tough lesson at a young age: not all agents are forthright with their clients. Busch was negotiating a contract extension with Hendrick Motorsports. His attorney-agent, Allen Miller, kept him in the dark about the progress of his negotiation.<sup>88</sup> Before he knew it, Busch was pushed out of Hendrick Motorsports in favor of fellow driver Dale Earnhardt, Jr. His agent diminished the number of racing groups that were interested in Busch’s services, leaving Busch “ignorant because he wasn’t informed.”<sup>89</sup>

One of the most glaring examples of bad agenting happening to good players is former MLB player Juan Gonzalez. In 2000, Gonzalez turned down an eight-year, \$140 million contract with the Detroit Tigers. Once known as Juan Gone for his power hitting and home runs, fans and commentators were left asking, “Where has Juan Gone?” Whether it was the team, the contract terms, or some other variable that led Gonzalez to reject the Tigers’ offer, no one but Gonzalez will ever know. After his ill-fated season in Detroit, Gonzalez signed a one-year contract with the Cleveland Indians to show that he still was a power hitter, and hoping to get another huge payday. Gonzalez never again played to his potential and he never came close to achieving a \$140 million deal. Perhaps Gonzalez did not like Detroit, and did not like the direction of the team. It is hard to fathom any athlete who could not find 140 million reasons not to like a city. Gonzalez’s attorney-agent, Scott Boras, might say the decision was risky, brave, and calculated. Most others would say it was not in the interests of the client.

In 2007, New York Yankees third baseman Alex Rodriguez infuriated fans, coaches, fellow players, and MLB executives when, under the advisement of his agent, Scott Boras, he opted out of his Yankees contract during the pivotal Game 4 of the World Series between the Boston Red Sox and the Colorado Rockies. By using the championship-clinching game to announce his intentions, Rodriguez “put his selfish interests and that of one individual player above the overall good of the game.”<sup>90</sup> In a team sport, no individual player should be larger than the game itself. The fallout from the Boras-advised publicity stunt left Rodriguez feeling foolish, and questioning the relationship with his longtime agent. Rodriguez decided that he ultimately wanted to return to the Yankees and headed to the negotiating table solo. Without Boras, he

was able to reconcile with the Yankees to the tune of 10 years and \$275 million.<sup>91</sup>

Some athletes are again meeting with management one-on-one in order to get the best possible deal. Negotiating for oneself also eliminates the hefty commissions paid to agents. Former University of Maryland basketball great (and Harvard Law School graduate) Len Elmore noted:

In an environment where agents must constantly restate their value proposition, a majority of agents are going to be hard-pressed to prove fairly and comparatively how they enhance a player’s bottom line or his overall career . . . the day has come when superstars can meet face-to-face with an activist owner and without an agent reach the basics of an agreement.<sup>92</sup>

Prominent players such as NBA basketball greats Tim Duncan and Grant Hill hire attorneys on an hourly basis to negotiate contracts, paying thousands of dollars, instead of millions for agency services. Grant Hill’s attorney, Lon Babby, charged him \$100,000 to negotiate his first contract. Had he paid the standard agent commission, Hill would have paid \$1.8 million.<sup>93</sup> As Boston Celtic Ray Allen noted, hiring an attorney on an hourly basis is “merely a good business decision.”<sup>94</sup>

## Conclusions and Recommendations

An agent’s job is to “vigorously safeguard and advance his client’s interest with the undying loyalty of a fiduciary.”<sup>95</sup> Yet many sports agents foster a sense of dependency in their clients: “They don’t want players to be able to think for themselves. It’s sort of like an addiction to drugs. A lot of things that normal people do in the course of life, they never experience because they have somebody doing it for them.”<sup>96</sup> What happens to players when their playing days end at age 30 and they have no idea how to do anything for themselves? Agents, who are often more sophisticated in business, cultivate the dependency of the naïve, young athlete. For many agents, once a client’s playing career is over, they have no inclination to help a client with mundane life activities.

Furthermore, when agents participate in deceptive tactics, this approach “leaves too many clubs feeling vanquished rather than gratified, the way an equal partner in negotiation should feel.”<sup>97</sup> While some teams are willing to negotiate with this style of agent, others are not. For most team executives in the NFL, hearing that Rosenhaus is a player’s agent receives a collective eye roll. The negotiating experience with Shapiro is more welcomed and desired. It is undeniable that both Drew Rosenhaus and Ronald Shapiro have been incredibly successful in their respective roles as NFL and MLB agents. It would seem that the Shapiro method of negotiation is a more welcome one. It emphasizes the importance of long-term relation-

ships and mutuality in contracts. MLB teams have no hesitation negotiating with Shapiro because of his long-standing reputation in the league. While Rosenhaus as an agent is not an absolute deterrent to dealing with a player, it gives many team pause when deciding whether to enter contract negotiations with “The Shark.”

Negotiation is based on relationships. Agents who pursue contracts that have the potential to lead to other contracts yield a larger return-on-effort.<sup>98</sup> Nonetheless, many negotiators approach a contract as a one time deal; “go in, score, get out.”<sup>99</sup> Shapiro believes that the most effective negotiating comes when you help the other side to achieve at least some of what it wants. This helps build relationships that can lead to an infinite number of future deals. Rosenhaus is not concerned with long-term relationships. Instead, his focus is on padding the pockets of his clients and himself in the present, not the future. While this approach has undoubtedly reaped him millions, it can (and has) hurt his negotiating position with the teams he has manipulated on his way to the top.

Players and owners generally agree that there is a problem in the player representation business. Lack of competence, client poaching, and deceit are all common practices: “While there are differing views as to the egregiousness of such routine behavior, everyone including players, heads of the players associations, and even many agents, universally agree that such behavior is a problem.”<sup>100</sup> NFL Hall of Fame player Kellen Winslow Sr. said that anyone paying a 3 percent commission to his agent is being ripped off: “Draft picks decide to sign with an agent because agents have sold them a bag of goods of what they can do for them.”<sup>101</sup> A word of caution to professional athletes would be to be smart when choosing representation. While agenting, like anything else, is a business, agents need to remember that they are hired as fiduciaries and as advocates for their clients.

Sports leagues should enact a uniform regulation system, such as the American Bar Association Model Rules of Professional Conduct (Model Rules). At present, with no strict guidelines, the leagues are essentially giving the sports agents a blanket license to run amok. Leagues could also benefit from implementing a continuing education program to ensure that agents are up-to-date on current laws and practices as they apply to each league. Players would be well advised to understand the difference between licensed attorneys and non-attorney representatives. The NFL has become the first professional sports league to require a graduate degree before an individual will be certified as a player agent.<sup>102</sup> This added emphasis on education should serve as a wake-up call to the professional athlete.

Attorneys have the educational background to have a better understanding of contracts, labor laws, and tax ramifications. An attorney-agent is bound by the Model Rules, and failure to comply with this code of ethics may result in disciplinary action.<sup>103</sup> This is not the case for the

non-attorney agent. If attorney-agents were held to the Model Rules when participating in a field traditionally outside the bounds of law, a client would be better protected with respect to conflicts of interest.

Under Model Rule 1.7, “a lawyer shall not represent a client if the representation involves a concurrent conflict of interest.”<sup>104</sup> However, an agent may represent two clients with competing interests if the client consents and the attorney reasonably believes that neither client’s interests will be compromised as a result of the dual representation.<sup>105</sup> This would include agents representing more than one player, at one position, at the same time.

Since the same standard of ethics is not applied to the non-attorney agent as the attorney-agent, attorneys may be quick to cite unfairness in imposing one standard to them and another to their non-attorney counterparts. Few courts have addressed whether an attorney acting as a sports agent is held to the Model Rules or any other ethical standards that would apply to an attorney in a traditional legal role. “It may also be argued that the activities of a sports agent or an attorney may be indistinguishable, for which reason it is appropriate to adopt a policy which supports the application of the ethical code regardless of form.”<sup>106</sup>

Players may also be wise to retain licensed attorneys on a set fee, hourly or not-to-exceed, instead of unlicensed representatives on a contingent fee. While this may not be a popular approach with the certified sports agent, a player with a limited shelf life should welcome the opportunity to save millions of dollars. Agents relying on commission may resort to lavishing expensive gifts such as cars on their clients. The reality is, with the millions of dollars saved by athletes utilizing an attorney on an hourly basis, the athlete can go out and buy several cars. For tasks that an athlete feels that he or she cannot handle on his or her own (such as travel arrangements and personal appearances), the athlete can hire a personal assistant or manager at a fee far less than the commission on a contract.

In the growing era of “Show me the money,” it would be wise for athletes to hire attorneys to learn how to maximize their potential earnings.

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# Entertainers, Athletes and Family Offices

By Daniel J. Scott

Much has been written about family offices over the years. So much so, that it is becoming difficult to define exactly what the term means. However, from free-standing, four-walled family offices to multi-family and even so-called “virtual” family offices, there is one common theme underlying them all—wealth management. Essentially, a family office represents a governance structure for privately owned assets—it is a vehicle for managing and protecting wealth.

When it comes to wealth management, entertainers and athletes are in a unique position. Unlike most of us, the demands of their schedules virtually preclude their involvement in their own day-to-day finances and investments. In addition, the entertainer or athlete who achieves “brand” status is often involved in several different industries, such as clothing lines, perfumes, or restaurants, and may own many different companies in many different countries. Therefore, in addition to managing his or her primary entertainment or sports career, the responsibilities of an entertainer or athlete can consist of day-to-day tasks (everything from paying bills to arranging for transportation services), managing investments, overseeing operating businesses and planning for his or her own future and the future of his or her family, all of which must get done while the entertainer or athlete is touring the world, on a film or television shoot or playing in packed sports arenas. In addition, most entertainers and athletes, at least in the early stages of their careers, are not as financially sophisticated as they need to be.

In order to properly handle these many responsibilities for their entertainer and athlete clients, attorneys and other professional advisors should consider using a family office model (at least in principle, if not formally). A family office model can help protect and enhance the wealth of an entertainer or athlete, handle day-to-day responsibilities, ensure tax compliance and reporting, and provide for a long-term estate and business succession plan, which eventually is a seamless post-death transition to preserve the wealth and legacy of the entertainer or athlete in a tax-efficient manner. In order to do so, entertainers and athletes first need a core *team* of advisors.

A core team of advisors can take many forms, depending on the overall structure that is implemented. For example, the advisors can be trustees of a trust, directors of a corporate board or members of some other advisory committee. The concept can be imported into whatever structure is ultimately chosen (which could vary for such reasons as tax implications, nationality, and personal preference) and can also be duplicated at sub-levels (such as lower-tier companies). Regardless of the form used, the makeup and function of an advisory team are critical.

An advisory team should be made up of individuals the entertainer or athlete trusts, who collectively have the necessary expertise to handle the variety of issues that require attention, who have the ability to actually implement strategies and get the job done, and who are always mindful of the wishes and needs of the entertainer or athlete. For those who like acronyms, TEAM stands for trust, expertise, ability and mindfulness. At the helm of an advisory team, of course, is the entertainer or athlete.

A critical component to building a strong governance structure, and one that the entertainer or athlete will (or at least should) insist upon, is preserving the ability of the entertainer or athlete to change who the appointed advisors are and the flexibility to change the overall structure if necessary or desired (although some restrictions on the absolute control of the entertainer or athlete may be needed for tax reasons). With the entertainer or athlete ultimately in charge, the overall structure and businesses can function day-to-day with limited participation by the entertainer or athlete, who, nevertheless, will be kept informed of business operations and join regular (but less frequent) meetings of the entire team (e.g., annual board meetings).

In general, the key function of an advisory team is to oversee managing the life of the entertainer or athlete—from the day-to-day administration to managing assets and investments, to planning for the future. Having multiple independent professionals collectively make major decisions and oversee these many responsibilities, as opposed to any one person, will improve the quality of decisions made and ensure the best possible outcome for the entertainer or athlete. It is also a way of implementing a system of checks and balances in order to prevent any one advisor from engaging in misconduct, while the team as a whole can keep watch on those in charge of daily responsibilities, to ensure fiscal responsibility and to safeguard against wasteful spending or other improprieties.

Having a team of advisors with varied expertise will prevent critical (but perhaps not immediate) issues from being overlooked or pushed aside. For example, tax reporting and compliance issues (which are particularly complicated in the international arena) will be more thoroughly understood, leading to filing requirements and payments being timely met (and avoiding interest, penalties or even criminal charges, not to mention public embarrassment). In addition, ongoing attention can be devoted to long-term planning, such as estate and succession planning. By monitoring the growth of the entertainer’s or athlete’s wealth, the team of advisors will be able to devise a comprehensive plan whereby assets can be periodically transferred out of the entertainer’s or

athlete's taxable estate, thereby freezing or reducing the value of the entertainer's or athlete's estate and future estate tax liability without incurring (or at least minimizing) any present tax. Similar planning can be done for any other lifetime gifts the entertainer or athlete wishes to make to family members, friends or charity.

Having a governance structure in place will help facilitate these long-term planning strategies. For example, with respect to generational and succession planning, an existing governance structure makes it easier for family members (or others) to gradually become involved in the overall organization during the career of an entertainer or athlete. This allows a person to mature, develop leadership skills, gain business experience and become financially sophisticated (if not already) before possibly succeeding the entertainer or athlete in his or her old age or after death and carrying on his or her legacy. Upon the death of the entertainer or athlete, the governance structure should provide for a seamless transition whereby the team of advisors and underlying businesses can continue to function as they were, only with family members, instead of the entertainer or athlete, sitting at the helm. Alternatively, should the entertainer or athlete not wish family members to have control (perhaps because it could lead to family feuding), the governance structure can be operated by the team of advisors, allowing the family to benefit while limiting its involvement in accordance with the wishes of the entertainer or athlete and preserving the peace.

Two other considerations are asset protection and confidentiality. In overseeing the management of the assets and investments of the entertainer or athlete, including new acquisitions, the team will be able to implement asset protection strategies that secure the entertainer or athlete from personal liability in connection with such assets and investments (and vice versa), while preserving confidentiality to the fullest extent possible. As most ventures will require some form of entity (such as a corporation, limited liability company or trust), the team can ensure that the formalities of such entities are fully observed in order to protect the entertainer or athlete

from exposure to personal liability based on a "piercing the veil" argument. Observing corporate formalities is also relevant for tax purposes and could prevent the IRS from disregarding an entity or transaction based on one of several doctrines (such as the "economic substance" or "sham transaction" doctrines).

The lives of entertainers and athletes are complex. As trusted advisors, attorneys and other professionals must encourage them to consider and develop comprehensive plans to govern and manage their lives, plans that not only focus on their professional careers and making money, but also on their personal lives, the growth and protection of the money they earn, and the preservation of that money for future generations. Following the family office model and implementing a strong central governance structure with a core team of advisors will help (i) enhance the wealth of an entertainer or athlete through collective decision-making and more sound investment advice, (ii) protect that wealth through a system of checks and balances that defends against individual fraud or misconduct and by incorporating asset protection planning, (iii) minimize tax exposure by implementing income, estate and gift tax planning strategies and ensuring compliance with all reporting requirements and filing deadlines, and (iv) provide for a seamless post-death transition that allows heirs of the entertainer or athlete to continue benefiting from his or her success, while participating in the continued legacy of the entertainer or athlete.

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**Upcoming *EASL Journal* Deadline:  
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# Yes We Can't?

By Joseph M. Hanna and JooHong Park

"Change" and "diversity" are two words that have gained prominence in mainstream America's vernacular since the recent election of our nation's first African-American President. Unfortunately, collegiate and professional athletics, arenas very often viewed as trailblazers in the field of diversity, still face many issues related to the hiring and retention of minority coaches.<sup>1</sup>

The disproportionate representation of minority head coaches is most evident in college football. For instance, among the 119 NCAA football programs, there are only four African-American coaches.<sup>2</sup> A recent example of a collegiate coaching hire that evokes talk of discrimination is the hiring of Gene Chizik as the head coach of football at Auburn University.<sup>3</sup> What was notable in the hiring of Chizik, who had previously compiled a losing record of 5-19 for two seasons at Iowa State,<sup>4</sup> was the fact that a highly qualified African-American candidate, Turner Gill, was also interviewed for the position but did not receive an offer. Gill took over as head coach at the University at Buffalo three years ago and succeeded in turning around one of the country's worst football programs by guiding Buffalo to a winning record, its first Metro Atlantic Conference championship and its first bowl bid in 50 years.<sup>5</sup>

Auburn's passing over of Gill evoked an emotional response in some quarters. NBA Hall of Famer Charles Barkley, a notable Auburn alumnus, has been quoted as saying, "I think race was the No. 1 factor. . . . You can say it's not about race, but you can't compare the two résumés and say [Chizik] deserved the job. Out of all the coaches they interviewed, Chizik probably had the worst résumé."<sup>6</sup> Barkley also stated, "I told him you can't not take the job because of racism. [Turner] was worried about being nothing more than a token interview. [Turner] was concerned about having a white wife. It's just very disappointing to me."<sup>7</sup>

The Auburn controversy has focused a spotlight on the issue of minority hiring within collegiate sports. Now, it is up to the NCAA whether it will choose to remedy this situation on its own or whether it will be forced to do so by the courts.

## Self-Regulation/Non-Litigious Means

Collegiate and professional sports have often mirrored each other both on and off the field. For example, NCAA Division I-A football and the NFL often adopt the ideas, policies and on-field rules of each other's respective organizations. Instant Replay is one example of an on-field policy that was initially adopted by the NFL (in 1986<sup>8</sup> and fully implemented in 1999)<sup>9</sup> that the NCAA then also later adopted (in 2006).<sup>10</sup>

One rule which has not been implemented by the NCAA, but which exists in the NFL, is the "Rooney Rule," enacted in 2002.<sup>11</sup> The "Rooney Rule" was named after the owner of the Pittsburgh Steelers, Dan Rooney, who chaired the NFL Committee on Workplace Diversity and helped formulate a policy that any NFL club seeking to hire a head coach must interview one or more minority applicants for the vacant position.<sup>12</sup> The fact that today approximately one-fourth of all NFL teams have minority head coaches<sup>13</sup> can arguably be attributed directly to the NFL's implementation of the "Rooney Rule." Conversely, in collegiate athletics, which lacks a functional counterpart to the "Rooney Rule," approximately only four percent of NCAA football programs have African-American coaches.<sup>14</sup>

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*"Unfortunately, collegiate and professional athletics, arenas very often viewed as trailblazers in the field of diversity, still face many issues related to the hiring and retention of minority coaches."*

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As a result of the apparent disparity in minority hiring between the NCAA and NFL, it has been argued that the NCAA should also adopt its own version of the "Rooney Rule." Furthermore, if the NCAA or its member institutions cannot be persuaded to enact such a rule on their own accord, litigation through Title VII has been discussed as an avenue of implementing such a policy change.<sup>15</sup> It must be noted that the NCAA has stated publicly that it does not believe it can implement a collegiate version of the "Rooney Rule" because even though it is a governing body, it cannot instruct its members how to hire.<sup>16</sup> At a hearing before the House Subcommittee on Commerce, Trade and Consumer Protection in 2007, Myles Brand, President of the NCAA, stated that

[j]ust as no central authority dictates to American higher education who among all educators and administrators they ought to interview or hire, the colleges and universities will not cede to the NCAA the authority to dictate who to interview or hire in athletics. This is not a challenge that can be managed through Association action in the same way we have done with academic reform. The universities and colleges retain their autonomy and authority in the case of hiring and in the case of expenditures,

and they will not cede it to the NCAA or any other national organization.<sup>17</sup>

When specifically asked about the implementation of a “Rooney Rule,” Brand stated that he believed “[s]uch a rule will not work for higher education as a whole, nor can a specific sport be singled out to operate apart from the institution.”<sup>18</sup> More tellingly, Brand indicated that he believes such a rule is unnecessary.<sup>19</sup> Although he cited his work with the Black Coaches Association (BCA) in helping the BCA design the Minority Hiring Report Card that grades and publicizes the results of interview and hiring efforts in Division I,<sup>20</sup> it is clear that little progress has been made to date.

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*“If an organization wanted to bring a lawsuit on behalf of minority coaches who were denied interview opportunities or otherwise denied coaching positions, it would also have to seek class certification.”*

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Directly suing a university may not only bring more attention to the issue of minority hiring than just the Minority Hiring Report Card, but may also spur the NCAA or its member universities to enact its own type of “Rooney Rule” in order to avoid both negative publicity and further litigation.

## Accelerating Minority Hiring Through Litigation

### Title VII Litigation

Title VII prohibits employment discrimination based on race, color, religion, sex and national origin.<sup>21</sup> Specifically, Title VII states:

(a) Employer practices

It shall be an unlawful employment practice for an employer

(1) to fail or refuse to hire or to discharge any individual, or otherwise to discriminate against any individual with respect to his compensation, terms, conditions, or privileges of employment, because of such individual’s race, color, religion, sex, or national origin; or

(2) to limit, segregate, or classify his employees or applicants for employment in any way which would deprive or tend to deprive any individual of employment opportunities or otherwise adversely affect his status as an employee, because of

such individual’s race, color, religion, sex, or national origin.<sup>22</sup>

If an organization wanted to initiate a lawsuit on behalf of minority coaches against an institution based upon a violation of Title VII, a number of requirements must first be met. The organization would have to: (1) establish that it has standing to bring a lawsuit on behalf of the coach (the plaintiff);<sup>23</sup> (2) if applicable, achieve certification as “class”; (3) establish that the plaintiff is a member of a protected group/class; (4) prove that the plaintiff was qualified for the position; (5) demonstrate that the plaintiff suffered an adverse employment action; and (6) prove that the adverse employment action occurred under circumstances that give rise to an inference of discrimination.<sup>24</sup>

In the context of federal court litigation, “standing” is the basic legal requirement that determines whether an individual or class of individuals is a “proper party to request an adjudication of a particular issue.”<sup>25</sup> Specifically, the courts have stated that to establish standing, a party must prove:

(1) that the plaintiffs have suffered an injury-in-fact—an invasion of a judicially cognizable interest which is (a) concrete and particularized and (b) actual or imminent, not conjectural or hypothetical; (2) that there be a causal connection between the injury and the conduct complained of—the injury must be fairly traceable to the challenged action of the defendant, and not the result of the independent action of some third party not before the court; and (3) that it be likely, as opposed to merely speculative, that the injury will be redressed by a favorable decision.<sup>26</sup>

Courts have held that “[o]nly someone who claims he has been, or is likely to be, harmed by [an] ongoing discriminatory practice has an adequate stake in the litigation to satisfy the “case or controversy” requirement of Article III.”<sup>27</sup> “If [a] named plaintiff lacks standing to sue, he cannot prosecute the pattern or practice claim, and unless an employee who has been, or is likely to be, harmed by the discriminatory practice is substituted as the named plaintiff, the claim fails.”<sup>28</sup>

If an organization wanted to bring a lawsuit on behalf of minority coaches who were denied interview opportunities or otherwise denied coaching positions, it would also have to seek class certification. In order to establish a “class” of litigants, the law requires that there exist numerosity, commonality, typicality, and that adequacy is satisfied so that relief is appropriate for the class as a whole.<sup>29</sup> A class of minority coaches could fulfill the requirement for class certification, since there are a number

of qualified minority coaching candidates and the basis of their claim could fall under the rubric of discrimination and Title VII. However, the difficulty would be in establishing a class of minority coaches who faced commonality of circumstances with regard to the alleged hiring practices of a university.

The next set of elements: (1) that the plaintiff is a member of a protected class; (2) that the plaintiff was qualified for the position; and (3) that the plaintiff suffered an adverse employment action would not be difficult to establish. First, race is a protected class. Therefore, an African-American coach who was denied a head coaching position will fall under the definition of a protected class.<sup>30</sup> Second, a minority coach can often cite his prior coaching experience to prove that he was qualified for the head coaching position at issue. Finally, failing to be hired will suffice as an “adverse employment action.”

The thorniest issue to be resolved for both educational institutions and any coach who believes that he or she was discriminated against is the issue of proving such discrimination. In a Title VII action, the plaintiff has the burden of establishing the case of racial discrimination.<sup>31</sup>

The Supreme Court has cited two methods of analysis under a Title VII lawsuit: (1) the pre-text analysis<sup>32</sup> and (2) the mixed motive method.<sup>33</sup> Under a pre-text analysis, the plaintiff carries the initial burden of establishing a *prima facie* case of racial discrimination. In *McDonnell Douglas Corp. v. Green*, the Supreme Court set forth a model for resolving claims of intentional discrimination where there is no direct evidence of discriminatory intent. The Court stated that the plaintiff could establish a *prima facie* case of racial discrimination by

showing (i) that he belongs to a racial minority; (ii) that he applied and was qualified for a job for which the employer was seeking applicants; (iii) that, despite his qualifications, he was rejected; and (iv) that, after his rejection, the position remained open and the employer continued to seek applicants from persons of complainant’s qualifications.<sup>34</sup>

The Court added that “[t]he burden then must shift to the employer to articulate some legitimate, nondiscriminatory reason for the employee’s rejection.”<sup>35</sup> The plaintiff must then establish that the reason offered by the employer was merely a “pretext” for an employer’s discriminatory hiring practices.<sup>36</sup>

According to the Court, one method of establishing that an employer’s reason was merely pretext for its racially discriminatory decision would be to establish that “whites engaging in similar illegal activity were retained or hired by petitioner.”<sup>37</sup> The Court also added that other relevant evidence in establishing pretext could include facts that an employer had followed a discriminatory

policy toward minority employees. Finally, the Court stated that “statistics as to [an employer’s] employment policy and practice may be helpful to a determination of whether [an employer’s] refusal to rehire [plaintiff] in this case conformed to a general pattern of discrimination against blacks.”<sup>38</sup>

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*“Unlike professional sports leagues such as the NFL, the government could not force the NCAA to pass regulations by threatening to withdraw an entity’s anti-trust exemption.”*

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“Under the mixed-motive method, a plaintiff must present sufficient evidence, direct or circumstantial, that, despite the existence of legitimate, non-discriminatory reasons for the adverse employment action, an illegal factor (i.e., race) was a motivating factor in that decision.”<sup>39</sup> A party does not have to establish that race was the only motivating factor, only that race did play a motivating part.<sup>40</sup> In addition, the racial bias must originate from a decision maker and race must have had a role in the employer’s decision making process and a determinative influence on the hiring decision.<sup>41</sup> However, it must be noted that standing alone, a deviation from an institution’s policy does not establish discriminatory intent.<sup>42</sup>

## Conclusion

When all of the legal tests and factors are viewed together, it becomes clear that the burden for a party or individual attempting to bring litigation against the NCAA or an educational institution regarding the disparity in minority coaching hires is steep and a potential plaintiff faces significant evidentiary challenges. An organization would have to find a minority coach that was clearly discriminated against by an educational institution and then attempt to find some direct or circumstantial evidence of discriminatory intent. In addition, statistical imbalances, although very real and prevalent, may not prove to be decisive in proving a case of minority hiring discrimination.

Unlike professional sports leagues such as the NFL, the government could not force the NCAA to pass regulations by threatening to withdraw an entity’s anti-trust exemption. Additionally, the NCAA does not even have the authority to tell its members how they should hire. However, similar to the NFL, the threat of litigation and the related negative publicity could spur universities to self-regulate by instituting their own version of the “Rooney Rule.”

## Endnotes

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2. <http://sports.espn.go.com/ncf/news/story?id=3770769>.

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5. *Id.*
6. *Id.*
7. *Id.*
8. <http://www.nfl.com/history/chronology/1981-1990>.
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10. <http://www.ncaa.org/wps/ncaa?ContentID=4802>.
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21. <http://www.eeoc.gov/policy/vii.html>.
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23. *Bennett v. Spear*, 520 U.S. 154 (1997); *Murray v. U.S. Bank Trust Nat. Ass'n*, 365 F.3d 1284 (11th Cir. 2004); *see also Hall v. Alabama Ass'n of School Boards*, 326 F.3d 1157 (11th Cir. 2003) and *Cotter v. City of Boston*, 323 F.3d 160 (1st Cir. 2003).
24. *McDonnell Douglas Corp. v. Green*, 411 U.S. 792, 802 (1973).
25. *Flast v. Cohen*, 392 U.S. 83 (1968) states: "The 'gist of the question of standing' is whether the party seeking relief has 'alleged such a personal stake in the outcome of the controversy as to assure that concrete adverseness which sharpens the presentation of issues upon which the court so largely depends for illumination of difficult constitutional questions.'" *Citing Baker v. Carr*, 369 U.S. 186 (1962). In other words, when standing is placed in issue in a case, the question is whether the person whose standing is challenged is a proper party to request an adjudication of a particular issue and not whether the issue itself is justiciable.
26. *Bennett v. Spear*, 520 U.S. 154, 167 (1997) *citing Lujan v. Defenders of Wildlife*, 504 U.S. 555, 560-61 (1992).
27. *Flast v. Cohen*, 392 U.S. 83, 99-101 (1968) (internal citation omitted).
28. *Davis v. Coca-Cola Bottling Co. Consol.*, 516 F.3d 955 (11th Cir. 2008).
29. *Davis v. Coca-Cola Bottling Co. Consol.*, 516 F.3d 955, FN 20 955 (11th Cir. 2008); and Fed.R.Civ.P. 23(a) which states: "One or more members of a class may sue or be sued as representative parties on behalf of all only if: (1) the class is so numerous that joinder of all members is impracticable; (2) there are questions of law or fact common to the class; (3) the claims or defenses of the representative parties are typical of the claims or defenses of the class; and (4) the representative parties will fairly and adequately protect the interests of the class."
30. *Johnson v. St. Luke's Hosp.*, 2007 WL 3119845 (E.D. Pa., Oct. 23, 2007); *see generally* Title VII.
31. *McDonnell Douglas Corp. v. Green*, 411 U.S. 792 (1973).
32. *McDonnell Douglas Corp. v. Green*, 411 U.S. 792 (1973); *Ward v. City of North Myrtle Beach*, 457 F. Supp. 2d 625 (D.S.C. 2006).
33. *Price Waterhouse v. Hopkins*, 490 U.S. 228 (1989); *see also Hill v. Lockheed Martin Logistics Management, Inc.*, 354 F.3d 277 (4th Cir. 2004).
34. *McDonnell Douglas Corp. v. Green*, 411 U.S. 792, 93 S. Ct. 1817 (1973).
35. *Id.*
36. *Id.*
37. *McDonnell Douglas Corp. v. Green*, 411 U.S. 792, 93 S. Ct. 1817 (1973), *citing Jones v. Lee Way Motor Freight, Inc.*, 431 F.2d 245 (10th Cir. 1970); Blumrosen, *Strangers in Paradise: Griggs v. Duke Power Co.*
38. *Id.*
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40. *Id.*
41. *See generally Ward v. City of North Myrtle Beach*, 457 F. Supp. 2d 625 (D.S.C. 2006), *citing Hill v. Lockheed Martin Logistics Mgmt., Inc.*, 354 F.3d 277 (4th Cir. 2004).
42. *Mitchell v. USBI Co.*, 186 F.3d 1352, 1355-56 (11th Cir. 1999).

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# Spendthrift Trust: An Alternative to the NBA Age Rule

By Susan McAleavey

Brandon Jennings, the top point guard in the class of 2008,<sup>1</sup> had to put his dream of playing in the National Basketball Association (NBA) aside last year. That million-dollar contract that Jennings had prayed would take him and his family out of the impoverished and crime-infested city of Compton, California<sup>2</sup> would have to wait at least one year because of the NBA Age Rule (Age Rule).<sup>3</sup> This rule determined that the 6'1", 170-pound athlete<sup>4</sup> who clearly dominated high school basketball lacked the maturity necessary to compete in the NBA.<sup>5</sup> Try telling that to LeBron James, Kobe Bryant, Kevin Garnett or Tracy McGrady, four NBA superstars who made the jump into the NBA directly from high school.<sup>6</sup> Yet, unlike other high school superstars who felt coerced into attending college,<sup>7</sup> Jennings sacrificed his collegiate eligibility to play professionally in Europe where, unlike in the National Collegiate Athletic Association (NCAA),<sup>8</sup> he can actually receive proceeds from his jersey sales and expects to earn the American equivalent of a \$500,000 salary.<sup>9</sup> Jennings represents the beginning of a possible trend to international league play as a means of escaping the shackles of the NBA Age Rule.

Although intended to protect young athletes from their own inexperience and the pressures of professional sports, the Age Rule fails to achieve this policy goal. Taking effect in the 2006 NBA Draft, the Age Rule raised the "age floor" for Draft eligibility from 18 to 19.<sup>10</sup> Effectively, the Age Rule bars players from entering the NBA directly out of high school. Consequently, it withholds economic opportunity and stunts career development for the nation's most promising high school basketball players. Thus, the Age Rule has become nothing more than a creature of paternalism and cognitive bias. Unfortunately, the NBA and the National Basketball Players Association (NBPA) seem quite content to force these athletes down a path that they would rather not take.

The Age Rule has created a problem for which a legal solution exists. It fails to achieve the NBA's goal of protecting amateur players. Instead, it merely limits potential and growth for both the NBA and aspiring players. There is, however, a solution to this problem: the adoption of a trust system that permits high school players to enter the NBA Draft directly out of high school.

## The Age Rule

### History of the Age Rule

The NBA was established in 1949 and consists of 30 privately owned basketball teams.<sup>11</sup> In 1954, the NBPA formed as a union to exclusively represent the NBA players' interests.<sup>12</sup> Working in concert, these two organiza-

tions established a collective bargaining agreement (CBA) that governs the terms of player employment and eligibility for each team in the league.<sup>13</sup>

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*"Jennings represents the beginning of a possible trend to international league play as a means of escaping the shackles of the NBA Age Rule."*

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Until 1976, these two groups abided by the "Early Entry Rule," which prevented an athlete from being drafted until four years after he had graduated from high school.<sup>14</sup> Spencer Haywood, a 19-year-old Olympian from an impoverished background, successfully challenged this rule in the Supreme Court in 1971.<sup>15</sup> Haywood had signed a contract with an NBA team after his second year of college, when he was ineligible for the NBA Draft.<sup>16</sup> The NBA threatened to disallow the contract and Haywood brought suit on the grounds that the rule violated the Sherman Act.<sup>17</sup> To succeed on this claim, Haywood had to establish: (1) a contract, combination or conspiracy; (2) the contract, combination, or conspiracy produced a restraint of trade; and (3) the restraint affected trade or commerce among the several states.<sup>18</sup>

Some agreements and practices, however, have such a "pernicious" effect on competition that they are conclusively presumed to be unreasonable and therefore illegal, without elaborate inquiry as to the precise harm.<sup>19</sup> This principle of *per se* illegality applies to practices such as price fixing, division of markets, group boycotts, and tying arrangements.<sup>20</sup>

Using this analysis in *Haywood v. National Basketball Ass'n*, the Court found that the eligibility rule represented an illegal boycott, constituting a *per se* violation of the Sherman Act.<sup>21</sup> The Court found that the "absolute nature of the rule prohibited the signing of not only college players but also those who did or could not attend college." This direct refusal to deal with actors at a specific level of trade amounted to a group boycott.<sup>22</sup> Therefore, because of this discriminatory nature and its impact on trade and commerce in the several states, the Court invalidated the rule.

In response to this ruling, the NBA created a new rule, the "hardship rule," which allowed players who suffered from "severe economic hardship" to be drafted prior to the four-year anniversary of their high school class graduation.<sup>23</sup> Since the NBA viewed economic hardship liberally, any player who claimed hardship earned eligibility and the rule became meaningless.<sup>24</sup> Thus, in

Haywood, the Court essentially opened the door for young players to enter the NBA Draft.

Due to the liberal application of the “hardship rule,” the NBA abandoned it in 1976.<sup>25</sup> In its place, the NBA declared that any amateur player may enter the NBA Draft provided that his high school class had graduated and he had made his declaration within 45 days of the Draft.<sup>26</sup> From 1949 to 1994, only two players had entered the NBA directly from high school.<sup>27</sup> In 1995, however, the entrance and success of prep-to-pro star Kevin Garnett triggered a new trend of prep-to-pro players.<sup>28</sup> Specifically, 36 high school players entered the NBA Draft from 1995 to 2004, an average of fewer than four players each year.<sup>29</sup>

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*“The NBA primarily justifies the Age Rule as a means of providing amateur athletes with the ‘life experience’ imparted from college that is necessary to handle the pressures of life in the NBA.”*

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Concerned with the influx of high school players to the NBA Draft, Commissioner David Stern proposed increasing the eligibility rule from 18 to 20.<sup>30</sup> In their July 2005 collective bargaining negotiations, the NBA and NBPA promulgated the current minimum age eligibility rule. The current Age Rule restricts NBA Draft eligibility to those who, by December 31 of the year of the Draft: (1) are at least 19 years old and (2) have had at least one NBA season pass from when the player graduated or would have graduated from high school.<sup>31</sup> Consequently, amateur players can no longer make the jump from high school into the NBA.<sup>32</sup> This rule has forced stars like Greg Oden and Kevin Durant, both of whom could have competed in the NBA, to defer to college for one year before entering the Draft.<sup>33</sup>

### Rationale of the NBA Age Rule

Paternalism and cognitive bias encompass the principal rationales of the Age Rule. The NBA primarily justifies the Age Rule as a means of providing amateur athletes with the “life experience” imparted from college that is necessary to handle the pressures of life in the NBA.<sup>34</sup> NBA Commissioner David Stern believes that the Age Rule “allow[s] [the] kids another reason to have another year or two to grow, to deal with the stress, the discipline and, really, the life experience that would be helpful” in the NBA.<sup>35</sup> This one year of college is believed to transform immature adolescents into experienced adults.

This bias arises from the widely shared, yet unfounded, belief that because of their immaturity, young NBA players are especially susceptible to nefarious influences and will “get into trouble.”<sup>36</sup> Proponents of the Age Rule fear that, without college, players “[skip] the basic foundation they need to take care of themselves and their families for the rest of their lives.”<sup>37</sup> Consequently players

“make poor decisions that reflect badly on the league and hurt its bottom line.”<sup>38</sup>

In addition to protecting players from themselves, advocates of the Age Rule argue that it protects high school players from those who may prey upon their naiveté. For example, the Age Rule protects players against the opportunistic agent who may provide poor advice and consequently sacrifice the player’s NCAA eligibility.<sup>39</sup> It also limits the damage that can result from “the injustice where we make every kid believe they too can have the Dream,”<sup>40</sup> whether this push comes from parents, coaches or scouts. This philosophy paternalistically attempts to save players from potential failure. Therefore, supporters of the Age Rule defend it as a means of protecting the player against himself and from others.

Although intended primarily as a means of protecting the young players, the Age Rule provides less publicized benefits for the NBA. Whereas previously the NBA committed resources to scouting high school players, teams now have at least one more year to observe players in “a de facto and free minor league” college system.<sup>41</sup> Thus the Age Rule removes the risk inherent in drafting and developing high school players and better enables the teams to wisely select players.<sup>42</sup> When players are drafted from college they are also more recognizable based on exposure in the NCAA. These players’ reputations and promise likely draw more fans to the NBA. Given the Age Rule’s admirable goal to protect players and its benefits conferred on the league, the NBA logically supports the Age Rule.

### A Critique of the NBA Age Rule Inefficiencies of the NBA Age Rule

Although the NBA portrays the Age Rule as a necessary protection for amateur players, the rule fails to achieve its policy goals and simultaneously limits player potential and growth, while harming the league’s bottom line. First, a player’s option to pursue college after a multi-million dollar career in the NBA curtails the Age Rule’s driving incentive to attend college.<sup>43</sup> Second, the growth and success of International Leagues serve as a promising alternative to college and the NBA.<sup>44</sup> Unlike American sports leagues such as the NFL, which maintains a monopoly in the sport, the NBA faces competition from overseas leagues in both level of play and currency.<sup>45</sup> As the dollar weakens and players impatiently await their chance at the NBA, international leagues become more appealing.<sup>46</sup> This transition of basketball stars to international leagues will likely have a detrimental financial impact on the NBA as players cause fan support to shift to other leagues.

Even when players yield to the NBA’s push to attend college, the NBA’s policy goals still fail. Contrary to its claim, players do not gain valuable “life experience” from playing one year at the college level. Although many stu-



dents do mature in college, it is important to distinguish the lifestyle of a student-athlete as compared to the typical student. In addition to maintaining the typical class schedule, Division I<sup>47</sup> athletes spend between 40 and 50 hours a week practicing, lifting weights, traveling, playing games and attending team activities.<sup>48</sup> Thus, unlike the typical student, athletes do not have much free time to experience college and ascertain the general “life experience” that the NBA promotes. Nor do athletes necessarily benefit from the academic learning experience. Many star players recognize that they are in college for only one year and thus only need to meet GPA requirements for one semester to sustain eligibility for the full year.<sup>49</sup> The notion that “the system doesn’t even require an NBA-bound player to make believe he’s a student” minimizes the NBA’s paternalistic argument.<sup>50</sup> Duke University coach Mike Krzyzewski proposes having college-bound players sign an agreement to stay in college for at least two years as a solution to this problem.<sup>51</sup> Another year of forcing players to play the waiting game, however, will not cure this situation. It will merely add more of something that has little value to the players.

The cognitive bias that players who jump from high school to the NBA “get in trouble” also lacks merit. NBA players who did not attend college represent a disproportionately low percentage of troublesome players.<sup>52</sup> These “prep-to-pro” players are also consistently praised for their community service and social contributions.<sup>53</sup> Yet, even if this bias were grounded in truth, the Age Rule fails to protect high school players from the nefarious activities associated with an NBA lifestyle. College athletes are prone to a maladaptive lifestyle and health-risk behaviors including, but not limited to: physical fights, multiple sexual partners, frequent unsafe sexual practices, use of anabolic steroids, excessive use of alcohol, and drunk driving.<sup>54</sup> Surrounded by peers who frequently engage in these activities, student athletes are more likely to engage in them as well.

Nor does the Age Rule protect players from manipulative agents or others who may prey on the player’s “naïveté.” Given that agents receive an average commission of only 4 percent, the NBA overestimates an agent’s motive to provide bad advice to marginal players.<sup>55</sup> Yet, in the rare case of an “evil agent,” the Age Rule merely transitions agent focus from high school to college. Whereas before agents would spread across the country in search of individual talent at thousands of high schools, the Age Rule centralizes this process, making it even easier for manipulative agents to prey on athletes at the top Division I basketball programs.

Last, that some athletes may never achieve “the Dream” does not validate removing this opportunity from all players. As shown from the success of LeBron James and Kevin Garnett, “the Dream” is possible. High school players have fared well in past NBA Drafts because they knew they would do well; otherwise they

would not have declared.<sup>56</sup> Even if high school players do not reach superstar status, they rarely fail. For example, Korleone Young, a 1998 selection and the most popular high school “failure,” earned \$289,750 playing in the NBA and now earns between \$50,000 and \$100,000 per year playing abroad.<sup>57</sup> Compared with the average household income in the United States (\$44,334 in 2004),<sup>58</sup> this does not seem like failure. As the rationales that purport to protect the players lack merit, the Age Rule functions solely as a mechanism for injustice.

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*“Given that an NBA player reaches his prime at the young age of 27, every year of NBA play is crucial to a player’s overall earnings.”*

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### The Age Rule as a Mechanism for Injustice

The NBA is a professional organization that should strive for a market-driven result in order to compete and maximize earnings. This requires hiring the most talented individuals in the sport, regardless of age. The NBA, however, has chosen to prohibit some of the most talented players from playing for the NBA solely because of their age. In doing so, the NBA not only relinquishes profits, but also limits the players’ autonomy and unfairly denies them a life-changing opportunity.

The Age Rule wrongfully deprives high school athletes of an economic opportunity. Players who enter the NBA instead of choosing college may earn as much as \$100 million more over the course of their careers than players who earn a college degree.<sup>59</sup> By entering the league at an early age, a player “pay[s] his dues” and experiences the limitations of the rookie salary cap earlier in his career.<sup>60</sup> Accordingly, he qualifies for free agent status<sup>61</sup> at an earlier age and may negotiate a more favorable contract.<sup>62</sup> Consequently, the average salary of an NBA player starting out of high school exceeds the league average.<sup>63</sup> Given that an NBA player reaches his prime at the young age of 27,<sup>64</sup> every year of NBA play is crucial to a player’s overall earnings. This earning potential increases the opportunity cost of attending college and makes the NBA the better alternative. However, the Age Rule deprives a high school player from making the rational decision to enter the NBA directly out of high school, substantially curtailing his overall earnings. Moreover, the Age Rule tends to affect players like Brandon Jennings, who come from impoverished and crime-infested inner cities.<sup>65</sup> Thus, denial of this economic opportunity not only deprives the athlete of a career, it also robs him and his family of the opportunity to escape poverty and crime.<sup>66</sup>

While the Age Rule serves as a barrier for high school athletes, it permits NBA teams to act opportunistically. Barring players from entering the Draft for a minimum of

one year following high school allows the NBA an extra year to critique the player. Although players are only one season removed from high school, scouts hold them to a higher standard,<sup>67</sup> endangering the athlete's potential worth. Withholding the player from the NBA also shifts the risk of potential injury to the player. Instead of rationally placing this risk on the deep pockets of the NBA, the Age Rule forces the player to bear this burden. Although a successful college career may conversely increase a player's worth, the player should have the ultimate decision-making power to decide whether he wants to take this risk.

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*"Like the eligibility rules in both Clarett and Wood, the Age Rule is the product of a collective bargaining agreement that is promoted by federal labor law and supported by the courts."*

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Although the Age Rule targets high school stars who would enter the Draft, it also interferes with the opportunities of players who desire to play NCAA college basketball. Unlike high school stars who view college as a roadblock to the NBA, some players value the opportunity of earning a college education and playing four years of NCAA basketball. Forcing stars to attend at least one year of college, however, diverts scholarship funds away from these players who value the education.

### Challenging the NBA Age Rule

Unfortunately, stars or college-bound players have no organized advocates to defend their interests. As outside parties to the Collective Bargaining Agreement, amateur athletes have no influence in promulgating the NBA eligibility rules.<sup>68</sup> As so few high school players choose to jump directly into the NBA Draft from high school, these players have little influence as a class to affect the interests of the NBPA. Furthermore, veteran players, who are past their prime but are represented by the NBPA, counter the amateur players' voice and support the Age Rule's constraint on young competition, for fear of losing their jobs.<sup>69</sup> Nor, as demonstrated below, do these young athletes have a viable legal challenge to the Age Rule.

A challenge to the Age Rule on either antitrust or labor law grounds will likely fail. In 2004, the Second Circuit foreshadowed this result through its holding in *Clarett v. National Football League*.<sup>70</sup> There, an Ohio State sophomore football player challenged an NFL rule preventing amateur players from participating in the NFL Draft until three years following their high school graduation.<sup>71</sup> The player argued that the eligibility rule qualified as "an unreasonable restraint upon the market for players' services," a violation of Sherman antitrust laws.<sup>72</sup> The Second Circuit, on *de novo* review, reversed the district court's finding that the eligibility rule violated

antitrust laws.<sup>73</sup> The court determined that the eligibility rule constituted a mandatory bargaining subject and was thus reserved to the NFL and players union's representative to negotiate.<sup>74</sup> Further, because the rule resulted from a collective bargaining relationship that federal labor law provides for and promotes, the rule did not violate antitrust laws.<sup>75</sup>

Although the Second Circuit conceded that the rule may "work a hardship on prospective" players, this did not render the rule impermissible.<sup>76</sup> In the context of collective bargaining, a sports organization and its players' union can agree not to consider an individual for employment for "nearly any reason whatsoever," provided it does not violate federal laws.<sup>77</sup> Particularly in sports, federal labor law recognizes and encourages the advantage of allowing the teams to bargain with the union to establish a uniform system of rules in order to successfully operate the league.<sup>78</sup> Therefore, the Second Circuit upheld the NFL eligibility rule, recognizing that although the rule may exclude some potential employees, it did not "subvert fundamental principles of our federal labor policy."<sup>79</sup>

Ten years prior to *Clarett*, the court in *Wood v. National Basketball Association*<sup>80</sup> protected the NBA Draft from antitrust attack, provided the draft rule resulted from collective bargaining. There the court rejected a drafted college basketball player's argument that the NBA Draft violated antitrust laws as "an agreement among horizontal competitors, the NBA teams, to eliminate competition for the services of college basketball players."<sup>81</sup> As the Draft resulted from collective bargaining negotiations, the court upheld the NBA Draft and its ability to affect amateur players or "employees outside the bargaining unit."<sup>82</sup>

A challenge to the Age Rule will likely mirror these two decisions. The Age Rule, like the NFL eligibility rule in *Clarett*, is the product of a collective bargaining agreement that prevents amateur players from partaking in the Draft for a set time period after high school.<sup>83</sup> As shown in *Clarett*, an age eligibility rule is a proper subject of collective bargaining. Like the eligibility rules in both *Clarett* and *Wood*, the Age Rule is the product of a collective bargaining agreement that is promoted by federal labor law and supported by the courts.<sup>84</sup> The NBA, however, has an even stronger defense than the NFL in *Clarett* because the NBA Age Rule, unlike the NFL rule, is memorialized in writing.<sup>85</sup> The NBA also has a secondary defense that "the antitrust laws were passed for the 'protection of competition, not [individual] competitors.'" <sup>86</sup> Further, because the Age Rule represents part of the system of rules that contributes to the operation of a sports league, a court will likely uphold it. Thus, as shown by the basketball player in *Wood*, it does not matter that an individual athlete may experience hardship because of the rule or that the collective bargaining system excludes the individual's class. Therefore, in light of *Clarett* and *Wood*, the

Age Rule is likely insulated from an antitrust or labor law challenge.

Given the unlikelihood of a successful challenge to the Age Rule and the failure of the NBA to accomplish its policy goals, it is in the best interest of both the players and the NBA to consider alternative solutions.

### The NBA Trust Solution

The Age Rule fails to effectively protect young players. The eligibility rule denies qualified high school superstars the opportunity to make the economically rational choice to play in the NBA as well as the experience of competing at the sport's highest level. The NBA similarly loses as players like Brandon Jennings turn to international leagues, and those coerced into attending only one year of college fail to gain worthy "life experience" because they are just playing the waiting game. A possible solution may be if the NBA and NBPA were to adopt a trust system through which the NBA would appoint a trustee to maintain a portion of a high school athlete's earnings, solving the inefficiencies of the Age Rule and enabling qualified athletes to play at the top level.

### Trusts as a Means of Protection

Dating back to antiquity, the trust has been considered the crowning achievement of Anglo-American law.<sup>87</sup> A trust represents the most flexible method to control and dispose of property, limited only by the imagination of its creator.<sup>88</sup> It consists of an arrangement where one person manages property for the benefit of another.<sup>89</sup> The settlor of a trust may decide the term length for which to hold the property, how to manage and disperse the assets, and the conditions that must precede disbursement.<sup>90</sup>

Section 402 of the Uniform Trust Code establishes five requirements for the creation of a trust. It provides that a trust may arise if: (1) the settlor has the capacity to create a trust; (2) the settlor indicates an objective intention to create the trust; (3) the trust has a definite beneficiary; (4) the trustee has duties to perform; and (5) the same person is not the sole trustee and sole beneficiary.<sup>91</sup> Fulfillment of these requirements gives rise to a "legal entity" in which a trustee holds and disperses property as the fiduciary for the benefit of another.<sup>92</sup> The flexibility of these requirements allows the creator to deal with actual or potential beneficiary problems including maturity, spendthrift, and capacity concerns.<sup>93</sup>

In particular, spendthrift trusts serve the "express purpose of protecting the beneficiar[y] from want and inconvenience by reason of the vicissitudes of life."<sup>94</sup> Spendthrift trusts permit the settlor to provide the trustee with detailed instructions that qualify the terms upon which a beneficiary may receive income and principal, based upon the settlor's determination of need.<sup>95</sup> The settlor may mandate that the trustee distribute a specific percentage or amount of income at set intervals and/

or provide for payment of particularized items that the settlor considers legitimate (i.e., rent and utility bills).<sup>96</sup> Unless limited by statute,<sup>97</sup> any person may qualify as the beneficiary of a spendthrift trust.<sup>98</sup> Similarly, a spendthrift trust can validly protect any amount of income.<sup>99</sup> Both of these provisions exist independent of reference to need, the relationship to the settlor, or one's ability to look and care for one's business affairs or self.<sup>100</sup> These characteristics allow the settlor to protect trust assets from a beneficiary's own "improvidence or incapacity for self-protection."<sup>101</sup>

Spendthrift trusts provide further protection by prohibiting assignment and alienation.<sup>102</sup> Thus, the beneficiary may not transfer his or her interest and the beneficiary's creditors may not reach the interest or a distribution by the trustee before its receipt by the beneficiary.<sup>103</sup> This protects the beneficiary's right to receive income and also his or her right to receive principal in the future.<sup>104</sup> Therefore, this trust system safeguards the principal as the settlor intends, and the beneficiary receives that which he or she bargained for on the face of the instrument.<sup>105</sup>

Spendthrift trusts are virtually indestructible.<sup>106</sup> Given the trust's ability to "provide against the improvidence or misfortune of the beneficiary," courts have yet to determine that spendthrift trusts violate any principles of sound public policy,<sup>107</sup> and will only invalidate a spendthrift trust if it violates law or public policy.<sup>108</sup> Although state after state has adopted spendthrift trusts,<sup>109</sup> opponents raise the concern that these funds defraud creditors.<sup>110</sup> Creditors, however, have no right to rely on property held in a spendthrift trust because the trust declares this money inalienable and not liable to the beneficiary's debts.<sup>111</sup> Although the danger exists that creditors may be misled by appearances, proper diligence in examining the beneficiary's estate prevents such error.<sup>112</sup> Still, a creditor is not without recourse because he or she may reach a mandatory distribution of income or principal if such property has been distributed to the beneficiary or if a time reasonably necessary for the trustee to make a required distribution has passed.<sup>113</sup>

### Trust Success in the Entertainment Industry

In 1939, California enacted legislation that created a spendthrift trust system to prevent parents from squandering their children's earnings in the entertainment industry.<sup>114</sup> Known as the "Coogan Law,"<sup>115</sup> after child-actor Jackie Coogan,<sup>116</sup> this law created a trust system to protect child actors' earnings.<sup>117</sup> The law gave the court discretion to require up to half of the child's net earnings to be set aside in a trust fund for the benefit of the minor when a minor's contract was brought before the court.<sup>118</sup>

California expanded this law by recognizing earnings as the child performer's property and mandating a procedure for setting aside a portion of the child's income under all Coogan Law contracts, irrespective of whether the contract came before the court.<sup>119</sup> This legislation requires

that at least 15 percent of the child's gross earnings be set aside in a trust fund monitored by the courts.<sup>120</sup> The parent or guardian must then manage the fund as trustee for the benefit of the child, while the court maintains jurisdiction to terminate or amend the fund on notice to the parties. The child may not access the trust fund until he or she reaches the age of majority. During this time, only accepted financial institutions such as banks, credit unions, or other registered lending institutions may maintain control over the trust.<sup>121</sup>

In 2004, California again amended Coogan's law when it enacted Senate Bill 210,<sup>122</sup> requiring the employer to deposit the 15 percent of the child's earnings into a special account held by the Actors Fund of America (AFA) if no Coogan trust was established within 180 days of the minor's first day of work.<sup>123</sup> The AFA may then use this principal to fund programs for the education and benefit of child actors.<sup>124</sup>

Coogan's Law and its corresponding legislation have inspired similar legislation in other states. For example, New York Arts and Cultural Affairs Law § 35.03 grants the court the ability to set aside and protect as much of a child's earnings as it deems appropriate.<sup>125</sup> Likewise, Florida's Child Performer and Athlete Protection Act similarly states that a minor's earnings are the sole property of the minor and provides a set-aside provision for continued monitoring of the minor's well-being.<sup>126</sup> This legislation recognizes that the pressures of the entertainment industry force minors to grow up quickly and face the same obligations as adults. Coogan spendthrift trusts facilitate the transition into the "real world" for these actors by ensuring that they "will now have their income secured in a financial institution beyond the control of either the parents or themselves."<sup>127</sup> Coogan trusts serve as models for the application of a spendthrift trust to social and economic concerns faced by industries consisting of young professionals.

### The NBA Trust

Given the established history of spendthrift trusts and their success in the child entertainment industry, it would be prudent for the NBA to adopt an NBA Spendthrift Trust (NBA Trust) in the collective bargaining agreement to allow amateur players to enter the NBA directly out of high school.

First, conditional to entering the NBA, the NBA team would place the player's salary in monthly increments into a spendthrift trust with a financial institution as trustee until the player reaches 21 years. The trustee would then control and maintain the principal in the best interest of the player, allotting a specified disposition of the player's salary at selected intervals, e.g., on a monthly basis.<sup>128</sup> Recognizing the player's interest in the terms of this allotment, the NBA and NBPA, on an *ad hoc* basis, would collectively determine the particular terms of the trust, including the percentage or amount that should be

distributed to the player each month. The NBA, like the AFA under Coogan's Law, may use the principal to fund programs for the benefit of the player, such as sessions with sports psychologists and financial counseling. Second, the amateur player's contract would defer his signing bonus, if he receives one, until he reaches 21 years. In order to receive this bonus, the player must comply with the terms of the trust, including meeting behavioral and financial expectations. The NBA Trust would apply to all players who choose to enter the NBA Draft prior to turning 21.

The NBA Trust, unlike the Age Rule, would satisfy the policy concern to protect amateur players. Contrary to the Age Rule, the NBA Trust recognizes the unlikelihood that a player will attain maturity and "life experience" in one year of college and instead places this responsibility on the trustee, a financial institution that has actual experience. Given that the high school player may never have had to balance a checkbook or pay a credit card bill, the spendthrift trust would provide the athlete with a fiduciary trustee who, based upon the needs of the player and the terms of the trust, would discipline the player through monitoring and controlling his finances.

Maintaining 21 as the trust termination age would allow the trustee to monitor the individual for several years, giving the player guided experience in the NBA. During this time, the individual would have access to mental health programs and educational programs that will help him mature as both an athlete and an adult. Thus, before these players receive their earnings and signing bonuses in lump sums, they would have experienced and adapted to the NBA lifestyle. By adopting 21 as the age of majority, the NBA would also provide incentive for players to attend college, because they would be subject to the limitations of the trust if they elect to leave school prior to reaching 21, the customary college graduation age. Thus, the NBA Trust would encourage players to spend four years in college and graduate.<sup>129</sup> For those players who feel confident in their NBA potential (typically those who have played one year of college basketball and then elected for the Draft), however, the NBA Trust would allow for the NBA to monitor the player and promote good behavior. Therefore, maintaining the trust until age 21 would guarantee that all of these players have "experience," in one form or another.

The limited disbursements would prevent the player from squandering all of his earnings on nefarious activities or "getting into trouble," the second concern of the Age Rule. Rationing his earnings protects the player against the social pressures and lavish lifestyle of the NBA that Stern alludes to in his defense of the Age Rule.<sup>130</sup> By conditioning receipt of the player's signing bonus on compliance with the trust, the NBA would also encourage the player to limit his spending and comport with the team's code of conduct. Thus, the NBA Trust would work to keep the player from "getting into trouble."

The NBA Trust, through the trustee, would protect the player from those who may prey on his naiveté. The trustee, as a fiduciary, would manage and invest the principal in a manner that provides for a continued income flow to the player.<sup>131</sup> This allocation would remove the stress on the player to manage his own finances and prevents an accountant or family member from manipulating the player and his earnings. Simultaneously, the flexibility intrinsic in the NBA Trust would allow the NBA and NBPA to establish a trust that permits the player to support his family if he so desires. Therefore, because the NBA Trust would provide the player with experience, guard against the player “getting into trouble,” and protect against manipulation, it would satisfy the NBA’s policy concerns.

Moreover, the trust model would benefit the NBA financially. Individual teams would benefit from the individual talent of the high school superstars. High school players have an unusually successful track record in the NBA,<sup>132</sup> which will attract fans to games. Although the NBA may enjoy receiving players who have a national repute from playing in the NCAA, fans will likely show more interest in high school stars despite having less familiarity with the players because they are less of a commodity<sup>133</sup> and have a reputation of evolving into NBA superstars.<sup>134</sup> This interest translates into ticket sales and profits. The NBA Trust would allow teams and coaches to develop and mold the players, both physically and mentally, at an earlier age. The fiduciary trustee and funded programs supported by the principal would allow individual teams to monitor the behavior and well-being of their young players. The NBA Trust and the programs would serve to minimize the risk that a team takes in drafting a young player by focusing on his mental development and guaranteeing financial security. Allowing the best players to play in the NBA, regardless of age, will promote competition in the NBA and re-establish the league as the world’s top basketball organization. Consequently, foreign players who have elected to play in international leagues will reconsider a career in the NBA.<sup>135</sup>

These benefits outweigh the “incidental” benefits that the Age Rule provided. For example, the Age Rule’s role in lowering scouting costs does not validate prohibiting high school players from the NBA. Prior to the current eligibility rule, the NBA did not force teams to scout high school players. Individual teams made that choice. Under the trust system, if a team does not want to allocate money to scouting high school players, the team can opt not to.<sup>136</sup> Similarly, although the Age Rule provides teams with an extra year to critique players, this does not justify withholding players from the NBA. Again, individual teams have the ability to allocate or minimize this risk through their draft decisions. Given the potential benefits of the NBA Trust and a team’s ability to opt out of drafting high school players, the trust would place no costs on the NBA.

Contrary to the Age Rule, the NBA Trust would protect the high school players without unjustly denying them economic opportunity. On its face, the NBA Trust would benefit the player by allowing him to enter the NBA from high school. Instead of forcing the player into college for one year (or an international league), the player would instead have the opportunity to rationally weigh the benefits of increasing his potential NBA earnings through an early career start, shifting the risk of injury and personal stock value against the cost of skipping college and having his earnings held in trust. Although a utilitarian would argue that the spendthrift trust still deprives one of making a rational decision because the player does not have complete control over his salary,<sup>137</sup> the player does have the authority to concede or forgo this opportunity. This argument also fails to consider that the trust would benefit the player, in that it spares him possible economic regret, provides a stable source of present income, and ensures him financial stability over time. The flexibility intrinsic in spendthrift trusts also allows the individual to maintain a fairly luxurious lifestyle.<sup>138</sup> Thus, high school players would not likely view an NBA Trust as a major setback, because it would allow the player to enter the NBA and protect his earnings.

The opportunity to balance costs against benefits simultaneously would prevent the NBA from acting opportunistically as it has under the Age Rule. The NBA would no longer force players to bear the burden of potential injury or subject players to another year of scout scrutiny in the NCAA. Moreover, although not a party to the CBA, players who want to attend college and play NCAA Basketball would benefit from the opening of scholarships that high school stars feel forced to accept under the Age Rule.

Although it does not seem likely that one would challenge the NBA Trust because of its mutual benefits, an antitrust or labor law challenge to the NBA trust would likely fail. The NBA Trust, like the Age Rule, would result from collective bargaining.<sup>139</sup> Like the Age Rule, the NBA and NBPA would memorialize the NBA Trust in writing as part of the CBA.<sup>140</sup> As shown in *Clarett* and *Wood*, because federal labor law promotes collective bargaining and the freedom of contract, a court would likely uphold the NBA Trust.<sup>141</sup>

Nor would the court void the NBA Trust for public policy reasons. Given that the NBA Trust “provide[s] against the improvidence or misfortune” of the player, it would not violate public policy.<sup>142</sup> Nor would creditors be defrauded. Unlike the standard spendthrift trust, the courts would allow creditors to attach trust principal because it consists of the players’ salary and thus is the player’s property.<sup>143</sup> Only the signing bonus and salary not yet earned would be protected from creditors because that money is not yet the property of the player and cannot justifiably be relied on by a creditor.<sup>144</sup> Therefore, a court would likely uphold the NBA Trust.

## Conclusion

Brandon Jennings is not the first to feel the constraints of the Age Rule, but he is the first to undermine the NBA's control over players by turning to an international league. His story alone embodies the inefficiencies of the Age Rule and exposes the rule as nothing more than a paternalistic creature driven by distorted cognitive biases. The Age Rule strips our most talented players of a life-changing opportunity and deprives them from making a rational decision. Yet this need not be the case, because a legal solution exists. A trust such as the one proposed above provides the necessary reform by giving high school players the opportunity to make an educated, rational decision, while protecting and fulfilling the NBA's policy interests and concerns.

## Endnotes

1. DraftExpress, <http://www.draftexpress.com/profile/Brandon-Jennings-1114/> (last visited Nov. 1, 2008).
2. Matthew Wells, *LA Suburb Sees Murder Rates Soar*, BBC NEWS, March 16, 2006, <http://news.bbc.co.uk/1/hi/world/americas/4787252.stm> (identifying Compton as a place where you have to "watch your back all the time" for fear of drive-bys and random shootings).
3. The NBA Age Rule requires that a player be at least 19 years of age and one year removed from when the player graduated or would have graduated from high school. National Basketball Players Association, NBA Collective Bargaining Agreement, Jul. 29, 2005, NBA-NBPA, Art X § 1, available at [http://nbpa.org/cba\\_articles/article-X.php](http://nbpa.org/cba_articles/article-X.php) (last visited Oct. 5, 2008) [hereinafter CBA].
4. Luis Fernandez, *Brandon Jennings to Europe, Which Europe?*, DRAFT EXPRESS, July 13, 2008, <http://www.draftexpress.com/profile/Brandon-Jennings-1114/>.
5. *Id.*
6. Ryan M. Rodenberg, *The NBA's Latest Three Point Play*, 25 ENT. & SPORTS LAW. J. 14, 14 (2008) (listing star NBA players who went straight to the NBA after competing in high school).
7. See David Cohen, *Brandon Jennings Poised to Destroy NBA College One-Year Rule*, BLEACHER REPORT, Jun 30, 2008, <http://bleacherreport.com/articles/33689-brandon-jennings-poised-to-destroy-nba-college-one-year-rule> (suggesting that, but for the NBA Age Rule, Greg Oden, Michael Beasley and O.J. Mayo would have entered the NBA Draft).
8. See Michael A. McCann, *The Reckless Pursuit of Dominion: A Situational Analysis of the NBA and Diminishing Player Autonomy*, 8 U. Pa. J. Lab. & Emp. L. 819, 837 (2006) (noting that college athletes may not receive compensation for any portion of the revenue they generate) (citing NCAA Bylaws, Art. 15.2.5.4.2).
9. See Cohen, *supra* note 7.
10. CBA Art X § 1(b)(1).
11. See Michael A. McCann, *Illegal Defense: The Irrational Economics of Banning High School Players from the NBA Draft*, 3 VA. SPORTS & ENT. L.J. 113, 117 (2004).
12. *Id.* (citing Robert Bradley, *Labor Pains Nothing New to the NBA*, <http://hometown.aol.com/apbrhoops/labor.html> (last visited Nov. 5, 2008)).
13. *Id.*
14. Jayda Evans, *A Long Rise Back for Spencer Haywood*, SEATTLE TIMES, Feb. 25, 2007, available at [http://seattletimes.nwsources.com/html/sonics/2003588104\\_haywood250.html](http://seattletimes.nwsources.com/html/sonics/2003588104_haywood250.html).
15. *Haywood v. Nat'l Basketball Ass'n*, 401 U.S. 1204, 1204-05 (1971).
16. *Denver Rockets v. All-Pro Mgmt. Inc.* 325 F. Supp. 1049, 1060 (C.D. Cal 1971). Haywood was able to enter the league through a "hardship exemption" due to the fact that he was one of 10 children from a poor family. McCann, *supra* note 8, at 832.
17. See *Haywood*, 401 U.S. at 1205; *Denver Rockets*, 325 F. Supp. at 1060.
18. 15 U.S.C. § 1 (1997).
19. *Id.* at 5.
20. *Id.*
21. *Denver Rockets*, 325 F. Supp. at 1062. An illegal boycott consists of "concerted refusals by traders to deal with other traders." *Klor's Inc. v. Broadway-Hale Stores, Inc.*, 395 U.S. 207, 212 (1959).
22. *Id.* at 1066.
23. McCann, *supra* note 11, at 192-93.
24. *Id.* at 193.
25. *Id.*
26. *Id.*
27. McCann, *supra* note 8, at 832.
28. *Id.*
29. *Id.*
30. See Greg Sandoval, *NBA Wants a Minimum Age of 20*, WASHINGTON POST, Mar. 26, 2004, at D4.
31. CBA Art. X, § 1: Player Eligibility and NBA Draft, available at [http://www.nbpa.com/cba\\_articles/article-X.php](http://www.nbpa.com/cba_articles/article-X.php) (last visited Oct. 5, 2008).
32. *Id.*
33. Greg Oden attended the Ohio State University for one year before being drafted as the number one overall pick in the 2007 NBA Draft. Kevin Durant attended the University of Texas for one year before being drafted second in the 2007 Draft. CollegeHoops.net, <http://www.collegehoopsnet.com> (follow "Draft Profiles" hyperlink).
34. McCann, *supra* note 8, at 832-33.
35. Michael Lee, *Commissioner Weighs in on Brown's Suspension*, WASH. POST, May 11, 2005, at D09.
36. McCann, *supra* note 8, at 833.
37. Phil Axelrod, *What's the Rush? Coaches Concerned Agents Are Swaying Too Many Youths*, PITTSBURGH POST-GAZETTE, Jun. 26, 1996, at D06 (quoting Jerry Dunn, former head coach of the Penn State men's basketball team).
38. Michael Cunningham, *The Fountain of Youth*, S. FLA. SUN-SENTINEL, Mar. 10, 2005, at 1C (paraphrasing David Stern).
39. McCann, *supra* note 11, at 170.
40. Bryan Burwell, *Tiger Lives the Dream; McDavid Lives Nightmare*, USA TODAY, Aug. 29, 1996, at 12C (quoting Sharon Shields, professor of human development at Vanderbilt University).
41. See McCann, *supra* note 8, at 839 (citing Gary Myers, *Clarett Ruled Out of Draft NFL's '3-year Rule' Is Back—for Now*, N.Y. DAILY NEWS, Apr. 20, 2004, at 62).
42. Mark Berman, *Face to Face with NBA Boss*, ROANOKE TIMES, Jul. 6, 2005.
43. For example, Bill Willoughby earned his college education at the age of 44. McCann, *supra* note 11 at 139.
44. Compare Cohen, *supra* note 7, with Brian Lewis, *A New Galaxy: Beckham's Impact Felt Around MLS*, NY POST, July 18, 2008, available at [http://www.nypost.com/seven/07182008/sports/soccer/a\\_new\\_galaxy\\_120406.htm](http://www.nypost.com/seven/07182008/sports/soccer/a_new_galaxy_120406.htm) (noting that European soccer player, David Beckham's decision to play for LA Galaxy in the MLS after a career with world renown Real Madrid increased the Galaxy's revenue by \$13 million in his first year with the team).
45. *Id.*

46. *Id.* (noting that because of the exchange rate, international players who are eligible for the NBA are passing on the NBA and signing long-term deals in Europe). Retention of these strong foreign players further entices high school players to consider these leagues as a competitive alternative to the NBA.
47. The NCAA's most competitive athletic program.
48. McCann, *supra* note 8, at 835 (citing Michael Wilbon, *Graduation Rates Deceive*, WASH. POST, Mar. 28, 2002, at D1).
49. Bob Molinaro, *College Hoops Suffers When Young Stars Leave So Soon*, VIRGINIA PILOT & LEDGER STAR, Feb. 20, 2008. As the NCAA basketball season begins in November and concludes in March, only the first semester's grades affect a freshman's status for his first season of play.
50. *Id.*
51. Posting of Effect of the NBA Age Rule, Cardinal Rise and More to [http://sportsillustrated.cnn.com/2007/writers/grant\\_wahl/01/31/bkc.bag/index.html](http://sportsillustrated.cnn.com/2007/writers/grant_wahl/01/31/bkc.bag/index.html) (Jan. 31, 2007, 1:00pm EST).
52. McCann, *supra* note 8, at 834. Forty-one percent of American players attended four years of college and 8% did not attend college. Of the NBA players arrested, 57% attended college and only 5% did not. *Id.*
53. See Tyson Chandler, <http://www.tysonchandler.com/community> (last visited Nov. 1, 2008) (recognizing Tyson Chandler for establishing a program to rebuild New Orleans following Katrina); Pacers.com, All-Star Reading Team Visits Schools (2003), [http://www.nba.com/pacers/community/reading\\_timeouts.html](http://www.nba.com/pacers/community/reading_timeouts.html) (last visited Nov. 1, 2008) (praising Al Harrington for visiting schools to read stories to children).
54. See McCann, *supra* note 8, at 836 (citing A. Nattiv et al., *Lifestyles and Health Risks of Collegiate Athletes: A Multi-Center Study*, 7 Clin. J. Sport Med. 262 (1997)).
55. See McCann, *supra* note 11, at 170.
56. *Id.* at 149. For example, in the 2003 Draft, all five high school players who signed with agents were drafted and four out of the five were first round picks. *Id.*
57. *Id.* at 164.
58. U.S. Census Bureau QuickFacts, <http://quickfacts.census.gov/qfd/states/00000.html> (last visited Nov. 1, 2008).
59. McCann, *supra* note 11, at 115.
60. *Id.* at 157 (demonstrating that a younger player has a better negotiating position than an older player whose career is closer to completion). The rookie salary cap assigns salaries to individual players according to their draft positions for two-year terms, with a team option for third and fourth seasons. See *id.*
61. An unrestricted free agent may at any time, beginning on the first day of the Moratorium Period, negotiate a Player Contract with any Team, and may enter this contract at any time after the last day of the Moratorium Period. A restricted free agent may at any time beginning on the first day of the Moratorium Period negotiate a Player Contract with his Prior Team and negotiate an Offer Sheet with any Team other than his Prior Team. After the last day of the Moratorium Period, he may enter into a Player Contract with his Prior Team or an Offer Sheet with any Team other than his Prior Team. CBA Art. XI § 1(a).
62. *Id.*
63. *Id.* at 154.
64. *Id.* at 158 (noting that the average NBA career lasts only five seasons).
65. McCann, *supra* note 11, at 150.
66. See Michael Wilbon, *Stern Wants Age Limit*, WASH. POST, Jun. 14, 1999, at D1; Greg Wallace, *NBA Drain a Pain*, CHATTANOOGA TIMES, Dec. 13, 2001, at D1 (highlighting the poverty of Leon Smith and his family as the motivating factor for his declaration for the NBA Draft).
67. See McCann, *supra* note 11, at 162 (stating that "NBA teams expect college players to make an immediate impact, whereas high school players are viewed more as developmental players").
68. See *Wood v. Nat'l Basketball Ass'n*, 809 F.2d 954, 960 (2d Cir. 1987), *aff'd*, 809 F.2d 954, 959-62 (2d Cir. 1987).
69. See *Clarett v. Nat'l Football League*, 369 F.3d 124, 140 (2d Cir. 2004).
70. 369 F.3d 124 (2d Cir. 2004).
71. *Id.* at 125-26.
72. *Id.* at 134.
73. *Id.* at 130.
74. *Id.* at 139 (holding that eligibility rules are a mandatory bargaining subject because they have tangible effects on the wages and working conditions of current NFL players). Contrast *Haywood*, 401 U.S. at 1204 (The eligibility rule did not result from collective bargaining.).
75. *Clarett*, 369 F.3d. at 130 (demonstrating support for policy that favors free and private collective bargaining and requires good-faith bargaining over wages, hours and working conditions).
76. *Id.* at 140.
77. *Id.* at 141.
78. *Id.* at 196 (citing *Nat'l Basketball Assoc. v. Williams*, 45 F.3d 684, 689 (2d Cir. 1995)).
79. *Id.* at 135 (stating that to hold otherwise would undermine the congressional policy favoring collective bargaining, the bargaining parties' freedom of contract, and the widespread use of multi-employer bargaining units) (quoting *Wood v. Nat'l Basketball Assoc.*, 809 F.2d 954, 959 (2d Cir. 1987)).
80. 602 F. Supp. 525 (S.D.N.Y. 1984), *aff'd*, 809 F.2d 954, 959-62 (2d Cir. 1987).
81. *Wood*, 809 F.2d at 958.
82. *Id.* at 960 (citing *Fiberboard Paper Products Corp. v. NLRB*, 379 U.S. 203, 210-15 (1964)).
83. See *Clarett v. Nat'l Football League*, 369 F.3d 124, 125-26 (2d Cir. 2004).
84. See *supra* text accompanying note 66.
85. See Rodenberg, *supra* note 6, at 16.
86. *Id.* (quoting *Brown Shoe Co. v. United States*, 370 U.S. 294, 320 (1962)).
87. See, e.g., George M. Turner, *Irrevocable Trusts* § 2.2 (3d ed. 1996) ("One of the more prominent and celebrated legal scholars of the early twentieth century described trusts as the 'greatest and most distinctive achievements performed by Englishmen in the field of jurisprudence.'") (quoting 3 Maitland, *Collected Papers* 272)).
88. See Restatement (Second) of Trs. Introductory Note (1959) (noting that flexibility is one of the most important characteristics of a trust); see also 1 Austin W. Scott & William F. Fratcher, *The Law of Trusts* 2 (4th ed. 1987-1991) (stating that trust purposes are "as unlimited as the imagination of lawyers").
89. See Restatement (Second), *supra* note 88.
90. Theresa Meehan Rudy et al., *How to Use Trusts to Avoid Probate & Taxes* 23 (1992) (outlining the powers of the person who sets up the trust).
91. U.T.C. § 402 (2008).
92. See Restatement (Second), *supra* note 88, § 2 (defining a trust as "a fiduciary relationship with respect to property, subjecting the person by whom the title to the property is held to equitable duties to deal with the property for the benefit of another person, which arises as a result of a manifestation of an intention to create it").
93. Frank Rief, *Planning for Current and Future Family Asset Protection*, C644 A.L.I.-A.B.A. 125 (1991).
94. *Id.*

95. See *Broadway Nat'l Bank v. Adams*, 133 Mass. 170, 173 (1882).
96. *Id.*
97. Although, virtually all trust are automatically made spendthrift by statute. LAWRENCE W. WAGGONER ET AL., FAMILY PROPERTY LAW: CASES AND MATERIALS ON WILLS, TRUSTS, AND FUTURE INTERESTS 14-8 (4th ed. 2001).
98. *Id.*
99. *Id.*
100. *Id.*
101. See *Nichols v. Eaton*, 91 U.S. 716, 727 (1875); *Bennett v. Bennett*, 75 N.E. 339, 341 (Ill. 1905).
102. See WAGGONER ET AL., *supra* note 97, at 14-1. A spendthrift provision must prohibit both voluntary and involuntary transfers. U.T.C. § 502 (2008).
103. U.T.C. § 502 (2008). Spendthrift trusts also have the benefit of taking effect in bankruptcy. See Waggoner et al., *supra* note 97, at 14-10 (explaining that a restriction on the transfer of a beneficial interest of the debtor in a trust that is enforceable under applicable nonbankruptcy law is enforceable in a case under the Bankruptcy Code (citing 11 U.S.C. § 541(c)(2) (2008))). *But see* Adam J. Hirsch, *Spendthrift Trusts and Public Policy: Economic and Cognitive Perspectives*, 73 WASH. U. L. Q. 1, 77 (1995) (listing exemption claims that may reach the trust).
104. Estate of Vought, 250 N.E.2d 343, 348 (N.Y. 1969) (upholding a spendthrift trust that the testator created to protect his alcoholic and drug-addicted son).
105. *Id.*
106. See RESTATEMENT SECOND *supra* note 88, § 337cmt. 1.
107. *Id.*; see also *Broadway Nat'l Bank v. Adams*, 133 Mass. 170, 173 (1882) (stating that a trust that defrauds creditors, such as a self-settled trust, would violate public policy).
108. *Broadway*, 133 Mass. at 173 (holding that a trust that limited beneficiary's right to semiannual income from the fund did not violate public policy).
109. See WAGGONER ET AL., *supra* note 97, at 14-6 (quoting JOHN CHIPMAN GRAY, RESTRAINTS ON THE ALIENATION OF PROPERTY, Preface (2d ed. 1895)).
110. *Broadway*, 133 Mass. at 173.
111. *Id.*
112. *Id.* at 174; *Nichols Assignee v. Eaton*, 91 U.S. 716, 726 (1875) (recognizing that all trust instruments are recorded in public offices and open to inspection by all, thus imputing notice to all potential creditors).
113. RESTATEMENT (THIRD) OF TRS. § 58 cmt. D (2008); see also WAGGONER ET AL., *supra* note 97, at 14-12 (noting that "all authorities agree that both income and principal are transferable and attachable once received by the beneficiary").
114. Peter M. Christiano, *Saving Shirley Temple: An Attempt to Secure Financial Futures for Child Performers*, 31 MCGEORGE L. REV. 201, 202 (2000).
115. CAL. CIV. CODE § 36.1 (1939), amended by CAL. FAM. CODE § 6753 (2008).
116. Jackie Coogan was a television star who earned millions of dollars as a child, who upon reaching the age of majority learned that nearly all of his earnings were legally spent by his mother and stepfather. California enacted this law in response to Coogan's situation. Saira Din, *Chapter 667: Instituting Proper Trust Funds and Safeguarding the Earnings of Child Performers from Dissipation by Parents, Guardians and Trustees*, 35 MCGEORGE L. REV. 473, 473 (2004).
117. Christiano, *supra* note 114, at 203.
118. *Id.*
119. See Ben Davis, *A Matter of Trust for Rising Stars: Protecting Minors' Earnings in California and New York*, 27 J. JUV. L. 69, 73 (2006).
120. Din, *supra* note 116, at 475.
121. *Id.*
122. Davis, *supra* note 119, at 74 (citing Bill Analysis, Senate Floor, 4/25/03, S.B. No. 210, 2003-2004 Reg. Leg. Sess. (Cal. 2003)).
123. See Din, *supra* note 116, at 476.
124. *Id.* at 479.
125. See Erica Siegal, *When Parental Interference Goes Too Far: The Need for Adequate Protection of Child Entertainers and Athletes*, 18 CARDOZO ARTS & ENT. L.J. 427, 435-36 (2000).
126. See Stephen M. Carlisle and Richard C. Wolfe, *Florida's New Child Performer and Athlete Protection Act: Or What to Do When Your Client is a Child, Not Just Acting Like One*, 69 FLA. B.J. 93, 94 (1995).
127. Christiano, *supra* note 114, at 210.
128. Given that player's salaries tend to be fairly large, a financial institution will benefit from maintaining this trust system. See McCann, *supra* note 11, at 151.
129. Twenty-one is the age at which most students graduate college.
130. See *supra* note 36 and accompanying text.
131. U.T.C. § 402 (2008).
132. See McCann *supra* note 11, at 138-47.
133. Only 41 players were drafted from high school in 30 years. See McCann, *supra* note 8, at 832.
134. McCann *supra* note 11, at 139-46 (classifying high school stars such as LeBron James, Kevin Garnett, Kobe Bryant, Jermaine O'Neal and Tracy McGrady as superstars). Thus, fans will anxiously await the next superstar to enter the NBA from high school.
135. See Cohen *supra* note 7 (noting the trend of foreign players electing to play in international leagues instead of the NBA).
136. Teams do not *have to* draft high school players.
137. See Adam J. Hirsch, *Spendthrift Trusts and Public Policy: Economic and Cognitive Perspectives*, 73 Wash. Univ. L.Q. 1, 15-16 (1995).
138. See WAGGONER ET AL., *supra* note 97, at 14-7.
139. CBA, *supra* note 10.
140. *Id.*
141. See *Clarett v. Nat'l Football League*, 369 F.3d 124 (2d Cir. 2004); *Wood v. Nat'l Basketball Ass'n*, 809 F.2d 954 (2d Cir. 1987).
142. See *Broadway Nat'l Bank v. Adams*, 133 Mass. 170, 173 (1882).
143. See JESSE DUKEMINIER ET AL., WILLS, TRUSTS, AND ESTATES 557 (7th ed. 2005) (stating that one cannot shield his assets from creditors by placing them in a trust for one's own benefit, even if the trust is spendthrift, discretionary, or both).
144. See *Broadway*, 133 Mass. at 173.

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# Free Sampling: Why the Copyright Law's Rigid Sampling Regime Is Incompatible with Contemporary Creativity

By Rachel DeLetto

The first time I heard about Girl Talk all I knew were the facts: A Pittsburgh DJ with a cult following had just released for sale online a new album that contained songs he had composed on his laptop by digitally blending hundreds of unlicensed samples of contemporary Top 40 hits. Since courts have consistently seen sampling of sound recordings as ripping off the creative product of others, an act that is not looked upon favorably in the world of copyright law, my initial legal assessment was that this guy was about to be eaten alive by a mob of angry copyright holders.

Before I heard the music, I read interviews with the talent behind Girl Talk, Gregg Gillis, a 27-year-old biomedical engineer<sup>1</sup> who shed his pocket protector every Friday and jetted off to play packed clubs and festivals all over the country. Gillis repeatedly told reporters that he was sure what he was doing was “fair use,” and I wagged my finger at the lazy journalists who failed to question what that actually means, or assess whether it was true. After all, multiple albums consisting of songs composed entirely of hundreds of unlicensed digital samples sounded like a copyright infringing nightmare.

Then I heard the music. Contemporary hip-hop and pop lyrics, beats and hooks layered over recognizable classic and alternative rock riffs and choruses—several different tracks, from more than 300 different songs,<sup>2</sup> by different artists, at a time. Every song on Girl Talk's recent release “Feed the Animals” (FTA) was both catchy in its familiarity and surprising in its distinctiveness. The allure was that we all knew the tune. Yet the mastery with which the previously recorded riffs, choruses and beats were woven together, manipulated and recontextualized to create something wholly new and appealing, is what makes Girl Talk's music brilliant.

Girl Talk's albums are precisely the reason the copyright law strives to strike a balance “between protecting an artist's interests and depriving other artists of the building blocks of future works.”<sup>3</sup> Gregg Gillis has taken the works of others and turned them into something that is appreciated by thousands of people, many of whom would never be exposed to some of the music used to create his songs. The legal buzz around the music has given it a political annotation, making Gillis the *de facto* prophet of a growing resistance movement against the *per se* rule prohibiting digital sampling that argues that the copyright laws impede upon creativity.

Despite my feelings as a consumer, from a legal standpoint what Gillis has created is a lawsuit waiting to happen. Correction, hundreds of lawsuits from hundreds

of musical composition and sound recording copyright owners. *Bridgeport Music v. Dimension Films*,<sup>4</sup> which is considered to be the leading authority on digital sampling, lays out a plain and simple rule: Get a license or do not sample.

This article will argue that *Bridgeport Music's per se* rule is too rigid and unworkable in the face of changing technology and norms of the music industry and is generally contrary to goals of the copyright law because it inhibits artists from building upon prior works. In some cases, where an artist adds value through his or her own creative contributions, digital sampling and mash-ups can be more than just a theft of the original copyrighted work, and even contribute to the creative wealth of society.

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*“Girl Talk's albums are precisely the reason the copyright law strives to strike a balance ‘between protecting an artist's interests and depriving other artists of the building blocks of future works.’”*

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## Legal Background

### Goals of Copyright Law

It is a common misconception that the purpose underlying all copyright law is to protect the economic interests of authors and artists from freeloaders who would exploit the intellectual property of others for their own benefit without paying proper credit to the creator.<sup>5</sup> Practically speaking, this is the effect of copyright law. However, the essential authority for the law governing copyrights in the United States had a different fundamental purpose in mind.

The U.S. Constitution grants Congress the power to enact laws that “promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Rights to their respective Writings and Discoveries.”<sup>6</sup> Although there are many theoretical schools of thought that adhere to different policy rationales for why authors should be granted certain rights in their creative works, the Framers believed innovation in science and creative arts to be an important part of our fledgling democracy. Their primary motivation was utilitarian: Society at large would benefit and grow from the innovations and creations of others and thus the rights of the creators must be protected as an incentive to encourage the dissemination of new creative and intellectual

works to the public. Once the work is released into the hands of the public, it will in turn inspire others to build upon what came before them, thus furthering the progress of science and useful arts.<sup>7</sup>

As the goal of the Constitution's intellectual property clause is to encourage creation through protection of creators' rights, copyright law is an exercise in balancing two important opposing interests: protection of the exclusive rights of copyright owners versus the ability of the public to build upon copyrighted works in the creation of new works.<sup>8</sup> The Copyright Act is a reflection of this tension. Congress first codified the exclusive rights to authors of creative works in the Copyright Act of 1790.<sup>9</sup> Over the next two centuries it was frequently amended and twice overhauled to expand the types of works eligible for copyright protection and account for technological advances. The currently governing incarnation is the Copyright Act of 1976,<sup>10</sup> which has been amended more than 25 times and is in a state of constant reinterpretation by Congress and the courts.<sup>11</sup>

### Musical Composition Versus Sound Recording

Under the Copyright Act, an author has a copyright in a piece of music if it is an original work of authorship that is fixed in a tangible medium of expression.<sup>12</sup> Two separate copyrights are at issue with any recorded song. The "musical composition" is the work's musical score and lyrics—the actual visual representation of the music as written by the songwriter.<sup>13</sup> Either the songwriter or the music publisher generally controls this right.<sup>14</sup> In contrast, the "sound recording" is the sound captured on a phonorecord<sup>15</sup> or other medium when the musical composition is played.<sup>16</sup> The record label that financed the album normally controls this right.

Although musical compositions have enjoyed copyright protection since 1831,<sup>17</sup> sound recordings were not granted federal copyright protection until 1971 when technological advances created an opportunity for rampant piracy. There was growing concern with unauthorized duplication and sale of records and tapes, which spurred Congress to amend the 1909 Act to afford sound recordings statutory protection.<sup>18</sup> "For the purpose of protecting against unauthorized duplication and piracy of sound recording[s]," the amendment granted protection to sound recordings fixed on or after February 15, 1972.<sup>19</sup> Sound recording protection was incorporated into the 1976 Act and § 114 currently governs the scope of exclusive rights in a sound recording. Of particular importance to the sampling debate is § 114(b), which provides:

The exclusive right of the owner of copyright in a sound recording under clause (1) of section 106 [right to reproduce the copyrighted work in copies or phonorecords] is limited to the right to *duplicate the sound recording in the form of phonorecords or copies that directly or*

*indirectly recapture the actual sounds fixed in the recording.* The exclusive right of the owner of copyright in a sound recording under clause (2) of section 106 is limited to the right to prepare a derivative work<sup>20</sup> in which the actual sounds fixed in the sound recording are rearranged, remixed, or otherwise altered in sequence or quality. The exclusive rights of the owner of copyright in a sound recording under clauses (1) and (2) of section 106 do not extend to the making or duplication of another sound recording that consists *entirely* of an independent fixation of other sounds, even though such sounds imitate or simulate those in the copyrighted sound recording.<sup>21</sup>

For purposes of this article, it is important to understand that under § 114(b) a copy does not infringe the rights of a sound recording copyright owner unless it physically takes the actual sounds fixed in the recording and duplicates them. Independent re-creation of the sound is allowed (with the permission of the musical composition copyright owner, of course).

There are two major differences between the rights of musical composition copyright owners and those of the sound recording owner. First, whereas the musical composition owner has the benefit of all § 106 rights,<sup>22</sup> the sound recording copyright owner does not have the right to control public performance unless it is being performed by means of digital transmission. Second, and critical to the discussion of sampling, a copyrighted musical composition is subject to a compulsory license, while the corresponding copyrighted sound recording is not.

A compulsory license allows another person to play and re-record a song without seeking the permission of the copyright owner so long as certain requirements are met.<sup>23</sup> A compulsory license does not allow for change in the "basic melody or fundamental character of the work."<sup>24</sup> Legislative history shows that the purpose of the compulsory license was to prevent owners of musical compositions from imposing exorbitant licensing fees or forbidding other artists from re-recording their songs.<sup>25</sup> The compulsory license (theoretically) balances the financial interests of the copyright owner with the strong public benefit of allowing it access to the creative works of others.

In the absence of a comparable compulsory license regime for sound recordings, record labels have done exactly what Congress sought to prevent musical composition owners from doing. Licensing of sound recordings is *ad hoc*. As discussed further below, fees are set arbitrarily based on the clout of the original artist, the subsequent use, the length of the sample, the recognizability of the song, and a host of other variables—and can be altogether refused.

## History of Sampling

Sampling is the act of lifting part of a preexisting sound recording through use of a digital sampler<sup>26</sup> and reusing it as an element of a new recording.<sup>27</sup> Sampling dates back at least as far as the early 1960s when artists began using tape recorders and multiple turntables were used to incorporate samples into new musical works including The Beatles' "Yellow Submarine" and "I Am the Walrus."

The contemporary practice of digital sampling was a product of the introduction of hip-hop and rap music to the commercial market. Sugar Hill Gang's 1979 hit "Rapper's Delight"<sup>28</sup> is widely revered as the catalyst that ushered the hip-hop genre into the mainstream. "Rapper's Delight" featured Sugar Hill Gang rapping over the breakdown section of disco hit "Good Times" by Chic.<sup>29</sup> Sampling has since been standard practice in the rap and hip-hop communities and has been featured in many commercially successful works including Vanilla Ice's "Ice Ice Baby," which appropriated the recognizable opening notes of Queen and David Bowie's "Under Pressure," and The Verve's "Bittersweet Symphony," which used the orchestral foundation of The Rolling Stones' "The Last Time."<sup>30</sup>

For many years no one thought much about getting clearance to use the samples. The general attitude toward the practice was, "If they catch me, I will make a deal," and if the copyright owner complained, some money (and in some cases, control of the copyrights) would settle the dispute.

## Sampling and the Law

Although many artists preferred settlement to long expensive litigation, some copyright owners felt that it was about more than money. Despite the fact that digital sampling and mash-ups have become prevalent in the music industry, there is surprisingly little case law addressing the issue directly and even less that does so thoroughly.

The case that changed the "catch me if you can" practice of rampant sampling was *Grand Upright Music, Ltd. v. Warner Brothers Records*.<sup>31</sup> The case arose out of artist Biz Markie's unauthorized use of three words taken from a master recording of Raymond "Gilbert" O'Sullivan's "Alone Again (Naturally)." The court began its opinion with the oft-quoted Bible admonition: "Thou shalt not steal."<sup>32</sup> The opinion spoke nothing of artistic ingenuity or progress of creative arts. Nor did the court apply any infringement analysis. Since the evidence indicated that Biz and his record company knew they were supposed to get clearance to use the copyrighted work, the court concluded that their unlicensed use of the sound recording indicated a "callous disregard for the law and for the rights of others."<sup>33</sup>

The issue of sampling was next addressed in a more dispassionate opinion by the U.S. District Court of New Jersey in the case *Jarvis v. A & M Records*.<sup>34</sup> On their song "Get Dumb! (Free Your Body)," Robert Clivilles and David Cole digitally sampled a portion of the song "The Music's Got Me," recorded by Boyd Jarvis and his group Visual in 1982. Mr. Jarvis and Prelude Records (who owned the copyright in the sound recording) sued for copyright infringement. The District Court applied a "fragmented literal similarity" test.<sup>35</sup> Rejecting a strict ordinary observer standard, the court stated that the value of a work may be substantially diminished even when only a small part of it is copied if that part is of great qualitative importance to the work as a whole. Therefore, the proper question for assessing infringement in a digital sampling case is the same as that in any copying case: whether the defendant appropriated, either quantitatively or qualitatively, significant original elements of the work. The court rejected the defendants' motion for summary judgment, finding that it was not clear as a matter of law that the portions copied from "The Music's Got Me" were insignificant.<sup>36</sup>

In 1992, the Beastie Boys obtained a license to sample the sound recording of James Newton's song "Choir" in their track "Pass the Mic." The sampled portion was a six-second, three-note flute melody that was looped throughout the song. Yet while they had cleared the rights to digitally sample the sound recording, they had not received a license from Newton for use of the musical composition. In the ensuing litigation, the District Court for the Central District of California concluded that the sampled portion of "Choir" embodied in "Pass the Mic" was too insignificant to constitute an infringement.<sup>37</sup> The Sixth Circuit Court of Appeals affirmed, announcing the rule that use of a portion of a musical composition does not require a license if the sampled portion is so qualitatively and quantitatively insignificant that the average audience member would not recognize the appropriation.<sup>38</sup> The sample, according to the *Newton v. Diamond* court, was *de minimis*—not enough to constitute actionable infringement.

In response to the *Newton* court's decision that *de minimis* uses did not require clearance, the Sixth Circuit Court of Appeals accepted an appeal from a Tennessee District Court decision that extended the *Newton de minimis* rule to apply to sound recordings.<sup>39</sup> The Sixth Circuit opinion in *Bridgeport Music, Inc. v. Dimension Films*<sup>40</sup> was the first to interpret § 114(b) as applied to digital sampling of sound recordings and has since been subject to both strong supporting and opposing opinions.

The *Bridgeport Music* case arose out of the use of a three-note guitar riff from the sound recording "Get Off Your Ass and Jam" (by George Clinton and the Parliament-Funkadelic, the copyright of which was owned by Bridgeport), in the rap song "100 Miles and Runnin'" (by NWA), which was included in the score of the film *I*

*Got the Hook Up*, which was produced and distributed by Dimension Films. The Court of Appeals agreed with the District Court that the two-second sample was unrecognizable and qualitatively insignificant. However, this, the court said, did not matter when dealing with sound recordings.

The court hinged its decision—that the substantial similarity test is not applicable and *de minimis* use is not a defense to unlicensed sampling of a sound recording—on its interpretation of § 114(b). Specifically, the Court focused on the fact that § 114(b) specifically excluded the right to control “the making or duplication of another sound recording that consists *entirely* of an independent fixation of other sounds, even though such sounds imitate or simulate those in the copyrighted sound recording.” The court took the inclusion of the word “entirely” as an indication that Congress intended that a sound recording owner had the exclusive right to sample his own recording and used the opportunity to declare a rare bright line rule: “Get a license or do not sample.”<sup>41</sup>

The court admitted that this rule was partially founded in a desire for judicial economy and to ease enforcement by the courts.<sup>42</sup> It also attempted to justify the decision by pointing out the alternatives that would prevent stifling of creativity. First, the court said, anyone is free to duplicate the sounds of the desired sample in the studio. Second, the market will control the licensing process and price so that the costs will not become prohibitive. Finally, pre-1971 sound recordings were not subject to federal copyright protection.<sup>43</sup> The court left open the possibility that fair use may be available to the sampler as a defense to infringement of the rights of a sound recording copyright owner.

## Problem and Analysis

As the following analysis will illustrate, application of the bright-line rule set forth in *Bridgeport Music* is unrealistic as applied to Girl Talk. More generally, it is too short sighted, closed minded and rigid in light of the fundamental nature of music to be inspired by and build upon what came before. Strict adherence to the prohibitive clearance process envisioned by *Bridgeport* would wipe out an important musical niche represented by Girl Talk and other mash-up artists that are considered by many to be cultural visionaries. Despite the assurances of the *Bridgeport* court, all three proposed avenues would result in stifling of creativity.

### *Bridgeport's* Bright-Line Regime Is Not a Realistic Option

Clearly sound-alike is not an option here. Unlike the three-note guitar riff at issue in *Bridgeport*, or flute melody in *Newton*, independent creation of all the sounds that are compiled on FTA is a ridiculous notion. Creatively, it is virtually impossible that any one artist could effectively replicate the sounds of artists as varied as Jay-Z and ZZ

Top.<sup>44</sup> Even if that were possible, imagine the time it would take to re-record more than 300 different pieces of music. Add to that the studio costs, the additional musicians who would be required to duplicate instrumental and vocal sounds, acquiring the compulsory licenses to re-record the composition from each individual publisher, and concerns about whether using just a small portion of the original composition would violate § 115(a)'s requirement that the basic melody and fundamental character of the work remain intact. So even though “the world at large” may be “free to imitate or simulate the creative work fixed in the recording,”<sup>45</sup> creative works of the nature at issue here do not allow for such freedom.

Although some of the samples that Gillis used on FTA were recorded before 1972<sup>46</sup> and therefore are only subject to common law protection, this is an insufficient option. The entire creative process would be constrained if Gillis were limited to music that was released before he and most of his fans were born, even if some of the songs from prior musical eras are still heavily influential on popular music today, as illustrated by the inclusion of some recognizable excerpts throughout FTA. Yet the allure of his songs lies in their ability to seamlessly blend old and new, rock with hip-hop, crunk with pop, rap with easy listening. Just the act of having to consider this limitation negates the *Bridgeport* court's argument that it would prevent stifling of creativity.

With those two supposed “protections” sufficiently eliminated for our purposes, Gillis is left with one option: to get licenses. According to the *Bridgeport* court, the licensing process would not stifle creativity because the industry would be sufficiently regulated by market forces to prevent prohibitive time and economic costs. Although this may be true for use of one sample, what about 300?

Under the current copyright law, in order for someone like Girl Talk to legally release an album such as FTA for commercial distribution, he would have to clear all the rights for every song he intended to use. According to an industry insider<sup>47</sup> who specializes in music clearances, this process would be a heavy burden on an individual artist.

The first step would be to track down the copyright owners. Since Gillis is not re-recording the songs, the compulsory license would not apply. The possibility exists that some of the samples could be found to be *de minimis* as to use of the musical composition under the *Newton v. Diamond* rule, but many of the samples are significantly longer than the six-second melody at issue there. To err on the safe side, Gillis would need licenses from both the musical composition and sound recording copyright owners.

Starting with the musical composition, because there is often more than one song with the same title, the first step is to determine who the songwriter is. A good place to search is by artist or album title via the *All Music*

*Guide*.<sup>48</sup> Once the songwriter(s) has/have been identified, Gillis could go directly to The American Society of Composers, Authors and Publishers (ASCAP) and BMI Web sites (ascap.com and bmi.com, respectively) and search under the title of the song. (If the song is not found in one catalogue, it will likely be in the other.) Both companies' Web sites are accessible to the public and provide contact information for the copyright administrator of every song in each's respective catalogue.

For songs with only one songwriter, this process is relatively manageable. Most hip-hop, pop and rap songs are products of collaborations and will therefore have more than one songwriter, each of whom owns a percentage of the musical composition copyright. So Gillis would have to find the administrator for each of the individual songwriters. Once the administrators are identified, the license negotiation begins. Gillis would draft a letter to the publisher requesting permission to use the particular musical composition. The letter must include reference to the title of the song and songwriters. It should also describe the proposed new use, how the song fits in, duration of the song he intends to use, timing within the new work, how the new work will be exploited (commercial versus non-commercial use), titles of other songs within the new work, and project budget.<sup>49</sup> This letter would then be sent all the administrators for the songs he planned to use. Music publishers are willing to work with individuals, but they are much slower to respond to license requests than they would be for a music clearance company with whom they have an established relationship.<sup>50</sup>

Clearing the sound recording would be even trickier. There is no equivalent of ASCAP or BMI for master sound recording copyright owners. In the pre-digital world, all Gillis would have had to do was look at the CD booklet to find the label information. However, since all the music he uses comes from digital files, the best place to start looking would be a Web site such as [www.cdnw.com](http://www.cdnw.com). Entering the name of a song brings up a list of most, if not all, of the recordings that have been made by different artists and their respective labels. For some songs, this will be the end. However, as record labels often merge or disappear altogether, in the case of a defunct label it may be challenging to determine which entity controls the master recording copyright. An industry insider could take advantage of his or her contacts and find the artist's manager, who can usually redirect to the right people.<sup>51</sup> However, for Gillis or any independent artist, finding management contacts is almost impossible. For the master owners that could be identified, Gillis would have to send the same general letter that he sent to the publishers to each label for each song. After all the requests were sent out, the only thing left to do would be to wait.

Of course, the rights belong to the labels and publishers. They have no obligation to grant the licenses or even respond to requests. Often for both the musical composi-

tion and the sound recording, the willingness of the copyright owner to grant a re-use license depends on the clout of the original artist. The copyright owners of songs made famous by big artists play hardball.<sup>52</sup> They scrutinize each new work and decide whether it is something with which they want their recording associated. "Something that might be perfect might be impossible. You're never going to get a Beatles master. Ever."<sup>53</sup>

Assuming, however, that a label does agree to grant the license, the fee negotiation begins. While the fee publishers can charge for the musical composition is somewhat constrained by the statutory rates for compulsory mechanical licenses,<sup>54</sup> there is no standard fee or fee structure for licensing of sound recordings. How much re-use of a particular song will cost is based entirely on the clout of the original artist, popularity of the original song, prominence in the new work, length of the sample being used, and a variety of other factors. It is common for the major labels to insist on a per unit royalty fee.<sup>55</sup> This would entail upfront payment of an advance against royalties from future album sales.<sup>56</sup> In addition, after Gillis had recouped the advance, he would be required under the license to pay the agreed royalty amount to the label based on the complicated accounting structure defined in the individual agreement. This process would need to be repeated for every song Gillis uses on FTA, which may leave him with more than 300 different agreements with different labels.

As this is clearly not as easy a process as the *Bridgeport* court assumed it would be, Gillis could utilize companies like EMG, Inc.,<sup>57</sup> Signature Sound,<sup>58</sup> or Music Bridge<sup>59</sup> that specialize in clearing music licenses. Being that clearance of music copyrights is their business, such services have streamlined the process by developing databases of songs and the contacts for license requests, and ongoing relationships with publishers and labels. They are well versed in industry standards and therefore have more bargaining power when it comes time to negotiating deal points (including, for example, rates, rights, term, territory and options). Using a music clearance company would certainly alleviate some of the time and legwork for an independent artist. However, using a clearance service for a project like FTA would not be a financially viable option for an independent artist.<sup>60</sup> As with most things designed to make life easier, hiring a music clearance specialist has its price tag:

First we would ask for a retainer. Fees would then be calculated per quote, which doesn't guarantee approval, just sending out the request. There would be a separate fee for the master and the composition. Then if we get approval there is another fee for processing of the licenses. You're looking at around \$300-500 per song.<sup>61</sup>

Add the fee for the clearance service to that of the license fees (two for each song) and multiply it by 300. Not cheap.

Perhaps clearance of rights for use of one song may not be prohibitively time or financially taxing. The reality, however, is that Girl Talk's music is the music of the digital world. Technology allows this new and innovative genre to thrive, and mash-ups and remixes are the present and future of the music industry. A rule that requires this much time and money to create new music legally would most certainly stifle creativity.

### Is Fair Use a Sufficient Remedy?

The *Bridgeport* holding left open the possibility that sampling could be permissible fair use. The doctrine of fair use developed as a mechanism to help balance the competing goals of copyright law. Fair use is an affirmative defense to copyright infringement that employs a balancing analysis to allow an otherwise infringing use when strict adherence to the monopoly of the original copyright owner would stifle the production of new creative works that build upon the existing copyrighted works and thereby further contribute to the artistic wealth of society.<sup>62</sup> The fair use doctrine has been codified in Section 107 of the Copyright Act.<sup>63</sup> The test requires a balancing of four factors: the purpose and character of the use, the nature of the copyrighted work, the amount and substantiality of the use, and the effect on the market for the copyrighted work.

The general rule is that no one factor is to be determinative in isolation. Instead, the factors are considered together in light of the goals of copyright.<sup>64</sup> However, as will be discussed below, recent cases indicate that courts tend to be hanging more weight on whether the purpose and character of the use is transformative than any other factor.

#### 1. Recent Cases with Big Impact on Analysis of Whether Girl Talk's Use Is Fair Use

The vast majority of cases involving sampling of sound recordings result in settlements. Therefore, *Bridgeport's per se* rule has infrequently been truly tested. It is controlling authority in the Sixth Circuit and has been rather heavily applied by the courts within its jurisdiction.<sup>65</sup> However other courts outside the jurisdiction of the Sixth Circuit have expressly refused to follow the court's reasoning and interpretations.

A recent example of such divergence is reflected in *EMI Records, Ltd. v. Premise Media Corp.*<sup>66</sup> The dispute in this case arose out of the unauthorized use of John Lennon's "Imagine"<sup>67</sup> in the documentary film *Expelled: No Intelligence Allowed*.<sup>68</sup> The film featured an unauthorized 15-second synchronization of an excerpt of "Imagine." EMI Records, Ltd. (EMI), as owner of the "Imagine" sound recording, sought a preliminary injunction to prevent Premise Media Corp. (Premise) from reproducing,

distributing or otherwise exploiting the sound recording in conjunction with the film. Since the "Imagine" sound recording was fixed in 1971, it was not eligible for federal copyright protection and is therefore subject to state common law.<sup>69</sup> EMI's primary argument was that that under the authority of *Bridgeport Music*, the common law should not recognize a *de minimis* exception to unauthorized use of sound recordings.

While the facts of this case are distinguishable in many ways from the facts in *Bridgeport Music*, the court's explicit refusal to endorse the *Bridgeport* approach in *EMI Records* is still a strong indication that courts view the decision as too extreme and contrary to the intent of Congress. Judge Richard B. Lowe III's opinion in *EMI Records* reflects leading copyright scholar Professor David Nimmer's critical view of *Bridgeport Music*. Nimmer critiques the court's interpretation of § 114(b) by looking at legislative history beyond the inclusion of the word "entirely" to the explicit notes of Congress, which stated that "infringement takes place whenever all or any substantial portion of the actual sounds that go to make up a copyrighted sound recording are reproduced in phonorecords by repressing, transcribing, recapturing off the air or other methods."<sup>70</sup> This, Nimmer asserts, is a clear indication that Congress did not intend to eliminate traditional notions of substantial similarity with regard to sound recordings, as the *Bridgeport Music* court had concluded.<sup>71</sup>

The court rejected the extreme positions asserted by both parties: On the one hand, a *de minimis* use may not be a *per se* infringement; on the other hand, a complete reproduction is not required in order to be an actionable infringement. The court determined that fair use is available as a defense to common law copyright infringement of a sound recording.<sup>72</sup> Although the case was governed by common law, the court looked to case law that applied the federal statutory factors under § 107 of the Copyright Act, and concluded that the use of "Imagine" in the film could "reasonably be viewed as criticism of an anti-religious message represented in the sound recording."<sup>73</sup> The use in the film was therefore determined to be transformative. Despite the fact that synchronization licensing is a big part of EMI's business related to the "Imagine" sound recording, the court still granted Premier Media's fair use defense.

The Second Circuit's 2006 decision in *Bill Graham Archives v. Dorling-Kindersley, Ltd.*<sup>74</sup> demonstrates a willingness to apply a more flexible definition of the term "transformative purpose." The case involved unauthorized reproduction of seven graphic images of The Grateful Dead in a coffee-table book that chronicled the history of the band. Bill Graham Archives (BGA), owner of the copyrights in the images, sued Dorling-Kindersley (DK), publisher of the book, for unauthorized reproduction of the images. The court granted summary judgment to the defendant on the rationale that its use of the images constituted fair use. The opinion put heavy weight upon

the differing *expressive purpose* of the original works as compared to the defendant's use.<sup>75</sup> The original images were used as concert posters to publicize and generate interest in the band. DK's book was a biographical work. The images were used for their historical value to illustrate the band's developments through a time line featuring graphics, photographs, and text.<sup>76</sup>

The court also emphasized the physical transformation of the images. DK significantly reduced the size of the original images and combined them with original graphical artwork and explanatory text "to create a *collage* of text and images."<sup>77</sup> Drawing on the Ninth Circuit's opinion in *Kelly v. Arriba Soft Corp.*,<sup>78</sup> the court concluded that DK's use was transformative.

The rest of the fair use analysis emphasized transformativeness in consideration of each factor. The nature of the original work was creative, which traditionally entitles it to more protection. However, the court felt that the weight was only slightly in favor of BGA because of the transformative way in which DK used the images.<sup>79</sup> Under the third factor, amount and substantiality of the portion used, the court cited *Campbell v. Acuff-Rose* in support of its conclusion that even though DK used the entire image, such use was necessary to achieve the desired transformative purpose. Finally, the effect on the market was negligible because the book would have no impact on the primary market for full-sized images. Although the court recognized the existence of a licensing market for the images, it did not agree that this should always sway the fourth factor in the copyright owner's favor.

[W]ere a court automatically to conclude in every case that potential licensing revenues were impermissibly impaired simply because the secondary user did not pay a fee for the right to engage in the use, the fourth fair use factor would always favor the copyright holder.<sup>80</sup>

Even if courts are willing to stray from *Bridgeport Music* and follow the advice of Nimmer, Girl Talk's use would not likely be considered *de minimis* because many of the samples he uses are rather substantial. Therefore the fair use discussion in the *EMI Records* opinion and the *Bill Graham Archives* discussion of transformative purpose is central to any analysis of Girl Talk's mash-ups being protected by fair use.

## 2. Fair Use Analysis

As mentioned earlier, Gillis seems convinced that his use of the copyrighted sound recordings is protected under the fair use doctrine. This section will put that theory to the test.

### Purpose and Character of Use

The first factor to consider in a fair use analysis is the purpose and character of the secondary use. The tradi-

tional starting place in consideration of purpose and character of the use is whether the use is "commercial." There is no disputing that Girl Talk has profited from his use of the samples. FTA is available for download on his label's Web site<sup>81</sup> through a "pay what you want" model (a la Radiohead for its album "In Rainbows"). Girl Talk's label, Illegal Art, declined to give any information regarding how many copies of the digital album have been downloaded or how much money has been "donated" for the FTA download, but the album was so widely revered that *Rolling Stone* ranked it in the top 50 albums of 2008.<sup>82</sup> Girl Talk's 2006 album, "Night Ripper," was available through iTunes and sold 20,000 copies before it was taken down because of legal concerns.<sup>83</sup> His earlier albums can now be downloaded at IllegalArt.net at \$10 each.<sup>84</sup>

As discussed earlier, sound recording copyright owners do not currently have the right to control public performances of their copyrighted works. Therefore, Gillis has no obligation to obtain licenses to play live shows. Yet it is still notable to point out that Girl Talk's live performance fee is "upwards of \$20,000 for a 90-minute set."<sup>85</sup> Over the past year he has played large festivals, including Bonnaroo, Coachella and All Points West. His MySpace page lists a constant touring schedule, including three nights at Terminal 5 in New York City, all which are sold out at \$20 per ticket.<sup>86</sup> Clearly, Gillis is making bank off of his live performances.

Modern case law has illustrated that transformativeness of the secondary use is the heart of the inquiry. The transformative test attempts to measure the amount a secondary use contributes to society and therefore advances copyright's goal of promoting progress in the arts. In one of the leading fair use decisions, the Supreme Court in *Campbell v. Acuff-Rose Music, Inc.*<sup>87</sup> stated that the goal of promoting science and the arts is furthered by the creation of transformative works. "Such [transformative] works . . . lie at the heart of the fair use doctrine's guarantee of breathing space."<sup>88</sup> The Court also noted that the more transformative the new work is, the less weight will be given to the other factors—including whether the use is commercial—that may weigh against a finding of fair use.

In *Campbell*, the hip-hop group 2 Live Crew used Roy Orbison's "Oh, Pretty Woman" as the underlying foundation for a comedic rap. The Supreme Court concluded that 2 Live Crew's version commented on the naïveté of the original and rejection of its sentiment that ignores the ugliness of street life, and therefore was parodic in character. Use of the "creative heart" of the work was necessary for recognizability in order to achieve the parodic purpose. First Amendment concerns permeated throughout the opinion as the Court repeatedly pointed out that the critical nature of the use at issue would make it nearly impossible for a secondary user to secure a license from the original copyright owner. The key question is whether the secondary use "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.”<sup>89</sup> The Court felt that 2 Live Crew’s version injected a new message with a wholly new and independent character from the original, and granted its fair use defense.

The logical first question in considering transformativeness of Girl Talk’s music is whether his use of the samples can be considered parody. Gillis has often discussed the thought process behind his choice of samples. “I don’t pick things at random. I’ve always been into juxtapositions of really different elements. Things like really overtly sexual rap mixed with clean-cut 70s pop music, stuff like that. You hear a guy rapping about having sex and it’s set over James Taylor.”<sup>90</sup> Although Gillis has dismissed the idea that he is trying to make a point about digital sampling,<sup>91</sup> such a message is evident in the layering of tracks and artists that are purposely used simultaneously. This is especially so because of the songs’ prior legal histories, such as The Rolling Stones and The Verve’s “Bittersweet Symphony,” which, as previously discussed, the former now owns the rights to due to the settlement agreement of its own sampling controversy.

*Campbell* made clear that there was a low threshold for a finding of parodic character. However, given the voluminous number of samples, it appears that it would be difficult to convince a judge that each and every sample was used to take parodic aim at the original works.<sup>92</sup>

In spite of the rather unlikely possibility that a court would find Girl Talk’s use of the samples is for a parodic purpose, the policy arguments in *Campbell* are equally applicable. Although most modern hip-hop and rap artists would likely grant licenses, many old-time rock and rollers would reject requests for licenses for use in mash-ups merely because of the intended market, uncertainty about the way the samples would be used, and general desire to control the perceived integrity of their works. Furthermore, due to the distinct market to which Girl Talk’s songs are targeted, namely, the young, hip, all-night dance party crowd, there is little or no risk of market substitution. Someone who wants to hear Tom Petty & The Heartbreakers’ “American Girl” is not going to download “Like This” instead because it features The Heartbreakers’ opening guitar riffs. The songs on FTA and Girl Talk’s earlier albums satisfy an entirely different musical desire than that of the individual original songs.

Assuming that Gillis did not intend to comment on the original songs he used, therefore eliminating parody as an available avenue for a finding of transformativeness, he has arguably created something new, with a further purpose or different character, thereby altering the first with new expression, meaning or message. As Judge Lowe in *EMI Records* noted, while *Campbell* concerned parody, its principles extend to non-parody cases as well.<sup>93</sup>

No court has ever specifically decided whether the use of a sound recording can be transformative without a finding that it is a parody. However, the rationale in *Bill Graham Archives* should control such an inquiry because the secondary use there is analogous to Girl Talk’s use of the digital samples.

In *Bill Graham Archives*, the secondary user, Dorling-Kindersley, modified the original copyrighted images by drastically reducing the size and incorporating them, along with pictures, graphic images and text, into a collage for the purpose of illustrating a historical time-line of the band The Grateful Dead. In Girl Talk’s case, he broke down the original digital sound recordings into fractional tracks and incorporated small portions of the tracks into a new composition in which the works of many work together to produce something entirely new and different from the original individual works. Whether or not intentional, Girl Talk has created a historical time line of music chronicling the convergence of artists whose influences have shaped the culture of Generations X and Y.

Dorling-Kindersley’s use of the Bill Graham images had the same functional purpose of the original (visual representation of the image). However the court found that the expressive purpose of the secondary use (to illustrate an historical time line) was different and distinct from the original (an artistic advertising poster), and this was enough to be transformative. Likewise here, Girl Talk’s use of the samples serves the same functional purpose of the originals (audio recording of music for enjoyment by listeners). Yet the expressive purpose of Girl Talk’s use is clearly quite different from the originals. These songs were created as the soundtrack to a sleepless city. They were intended to speak to people who barely remember life before iPods, people whose playlists include artists as vastly divergent as Barry Manilow and Fergie,<sup>94</sup> people who love and appreciate music in an entirely new way because they have access to anything and everything at the click of a mouse. Girl Talk’s music is intended to get these people dancing at clubs.

Granted, Girl Talk’s case is distinguishable because the nature of the media (music) does not allow for incorporation in the same physical way as artistic works like those at issue in *Bill Graham Archives*. However, the simple principle underlying the reasoning in *Bill Graham Archives* directs that similar flexibility should be given regardless of media. “The ultimate test of fair use is whether the copyright law’s goal of promoting the Progress of Science and the Useful Arts would be better served by allowing the use than by preventing it.”<sup>95</sup> Few would disagree that what Girl Talk has created has built upon the existing copyrighted works and thereby further contributed to the artistic wealth of society.

There are no bright-line rules regarding how much transformation is necessary because it is essentially a subjective question of fact. Different judges apply different rationales depending on the specific circumstances of



the dispute. It is thus nearly impossible to project whether a court would accept this reasoning and find that Girl Talk's use of the samples is transformative. Yet, as the rest of the fair use analysis will illustrate, this question is determinative of whether Girl Talk will ultimately be liable for infringement.

### Nature of the Copyrighted Work

The second factor of a fair use analysis requires consideration of "the nature of the copyrighted work."<sup>96</sup> The key to this factor is an underlying recognition that some works are closer to the type of works copyright law is intended to protect.<sup>97</sup> It is well established that "creative" works intended for public dissemination, including music, are at the core of copyright's protective purposes as opposed to works that are factual or composed of data.<sup>98</sup> Therefore, the second factor weighs slightly against Girl Talk. However, the court in *Bill Graham Archives* noted that this factor should only carry minimal weight in cases where the original work has been extensively published and disseminated,<sup>99</sup> which is certainly the case with popular music. Furthermore, if Girl Talk's use is found to be transformative, even less weight should be afforded to the second factor because a transformative nature is often dependent upon recognizability of publicly known expressive works.<sup>100</sup>

### Amount and Substantiality of Portion Used

The third factor inquiry requires examination of the "quantitative and qualitative aspects of the portion of the copyrighted material taken."<sup>101</sup> The analysis focuses on the original work and asks whether the secondary user took more than was reasonably necessary to accomplish the intended purpose.<sup>102</sup> In *EMI Music*, the secondary use of 15 seconds of "Imagine" was quantitatively minimal.<sup>103</sup> It is difficult to apply a strict "time test" to Girl Talk's case due to the large number of samples used, the extraction of singular tracks within individual samples, frequent loops, variations to tone and tempo, and, wide variety in terms of duration. Some of the samples are extended lyric tracks, others are just a few words or hooks cut up and inserted to create an underlying beat. Only Gillis himself knows if the amount he used of each sample is necessary to accomplish his intended goal. In an interview with *New York* magazine, Gillis described his composing process:

It's a slow process. It takes me about a year or two to gather all the little pieces, then [sic] I edit it all together. I'll think, "Okay, I want Big Country with 'Whoomp! (There It Is)' going into, say, Afrika Banbaataa going into the Cardigans. How do I make those transitions as smooth as possible?" Even if I know how it will go, it will take me eight hours to make one minute of a song just to figure out different techniques to make it sound seamless.<sup>104</sup>

The qualitative evaluation considers whether the secondary user "took the heart of the original and made it the heart of the new work."<sup>105</sup> In *EMI Records*, although the film featured a key portion of "Imagine," use of the particular verse was necessary to support the purpose of that use (to criticize the anti-religious message). Furthermore, there was no evidence that the song served as a dramatic focal point or that the film was structured around the song.<sup>106</sup>

As indicated by the quoted passage above, Girl Talk makes decisions about the length and specific portion of the songs he uses by aesthetic judgment. The ultimate attraction of Girl Talk's mash-ups is their ability to put common songs in a new context and get people dancing to songs to which they already know the words. In order to achieve this, recognizable portions of such songs must be used. None of the samples are the "heart" of any of Girl Talk's songs. Each track jumps around so hyperactively that most listeners will miss many of the tracks entirely.

Accordingly, if Girl Talk's use is transformative, the third factor must come down in favor of a finding of fair use.

### Effect on Market

The final factor in the fair use inquiry looks at the "effect of the use on the potential market for or value of the copyrighted work."<sup>107</sup> Analysis requires the court to consider not only the affect on the primary market for the original work, but also to whether, if the challenged use becomes widespread, it will adversely affect potential future markets.<sup>108</sup> With regards to the market for the original, the *Campbell* court explained: "When a commercial use amounts to mere duplication of the entirety of an original, it clearly supersedes the object of the original and serves as a market replacement, making it likely that cognizable market harm for the original will occur."<sup>109</sup> This is not a case of mere duplication. As discussed earlier, it is highly unlikely that Girl Talk's mash-ups featuring brief snippets of many different songs will supplant the market for the original songs. Therefore, there is no likely effect on the market for the original songs.

The inquiry thus focuses on whether Girl Talk's use has invaded a potential market for derivative or future works. As noted in *Campbell*, licensing of derivatives is an important revenue stream for copyright owners. In *Campbell*, the court said that there could be a derivative market for non-parodic rap versions of "Oh, Pretty Woman"; however, neither party satisfied the burden of proving or disproving that 2 Live Crew's version would supplant the market for such derivative licenses. While it is arguable that mash-ups are not derivative works at all,<sup>110</sup> as illustrated by *Newton* and *Bridgeport Music*, courts do appear to recognize a derivative licensing market for sampling of sound recordings.

Accepting for the sake of argument that other courts would follow these courts' willingness to recognize a licensing market for use of samples of sound recordings, then each individual artist does have a potential future market for mash-up licenses. However, as was addressed in *Bill Graham Archives*, "were a court automatically to conclude in every case that potential licensing revenues were impermissibly impaired simply because the secondary user did not pay a fee for the right to engage in the use, the fourth fair use factor would always favor the copyright holder."<sup>111</sup> The transformative nature of the secondary use automatically weighs against a finding of impairment of a potential licensing market.<sup>112</sup>

### Balance of the Factors

Thus, as noted earlier, a finding of fair use weighs heavily upon whether a court would recognize Girl Talk's use of the sound recording samples as transformative. Regardless of transformativeness, as noted by Judge Pierre N. Leval in his article "Toward a Fair Use Standard," "[c]ourts must consider the question of fair use for each challenged passage and not merely for the secondary work overall."<sup>113</sup> This norm of copyright law creates a unique problem in the case at hand. Clearly Gillis does not have the financial ability to defend against a challenge from each individual sound recording owner. This would be prohibitively expensive and time consuming, considering that FTA contains over 300 individual samples. Thus, even if fair use were a viable defense, Gillis would be forced to settle by the impracticalities of litigation.

### Possible Solutions

From both a legal standpoint and a music lover's aesthetic view, it simply feels wrong that Gillis could be subject to liability to hundreds of musical composition and sound recording copyright owners for failing to obtain licenses. As noted earlier, *Bridgeport Music's per se* "get a license or do not sample" rule is a rare exception within the copyright law. Bright-line rules do not further the overall goals of allowing flexibility to account for First Amendment concerns about stifling free speech and expression. Nor do they allow for consideration of what will best promote progress in useful arts.

The Sixth Circuit in *Bridgeport Music* committed the same sin that drafters of the many revisions of the Copyright Act have committed all through its history: it failed to view the issue with any foresight. The constant battles to revise royalty rates and adaptations to account for the rapid evolution of technology and its effect on the music industry are a clear indication that there is a fundamental problem with the law.

In the 2.0 world, technology permeates through all of our lives. Music has always been a reflection of the influences of the culture creating it. It seems only natural that musicians would take advantage of and be inspired by this digital revolution that has given artists without

label backing the opportunity to record, mix, produce, and distribute their music via the Internet. True, Gillis did not "write" the songs on his albums. He did not go into the studio and lay down percussion tracks and harmonize vocals. Yet even a devotee of the classic guitar-in-hand ideal of musicians can appreciate the brilliance of FTA. Gillis is a composer of pop culture—a mixologist of classic and cutting edge.

Digital technology and the Internet threw the anatomy of the music industry into a state of flux. Many artists are creating and promoting without label backing. Pro Tools allows every garage band with an iMac to record and mix its own albums. Social networking and music sharing sites allow for self-promotion and viral marketing. It is generally accepted that the traditional record label is on its way to extinction. Copyright law should be flexible enough to appreciate and protect artists who have found innovative ways to adapt to these changes.

"Why should it be that just when technology is most encouraging of creativity, the law should be most restrictive?" asks Professor Lawrence Lessig in his book *Remix: Making Art and Commerce Thrive in the Hybrid Economy*.<sup>114</sup> Professor Lessig's fundamental argument is that the copyright law is severely out of date and incompatible with the realities of the digital world. "We . . . have a system of technology that invites our kids to be creative. Yet a system of law that prevents them from creating legally."<sup>115</sup> His book proposes a number of changes to the law that could help bridge the chasm between it and the creative potential of digital technologies, including full deregulation of amateur (non-commercial) creativity,<sup>116</sup> imposing a maintenance obligation for copyright owners after an initial term of automatic protection,<sup>117</sup> specifying certain uses of creative works that are beyond the scope of copyright law,<sup>118</sup> decriminalizing file sharing,<sup>119</sup> and particularly relevant to the focus of this article, decriminalizing "copying" and instead regulating it based on specific commercial uses that compete with the copyright owners' use.<sup>120</sup>

Short of overhauling the Copyright Act entirely, are there alternatives that would provide a better solution? Many scholars and industry insiders have been contemplating this question. This section will discuss a few of the proposed corollaries to traditional Copyright Act avenues that have the potential to better balance the opposing interests at stake—right of creator to control versus concerns about depriving other artists of the building blocks of future creative works.

The first possible alternative is to extend the Copyright Act's compulsory licensing system for "covers" to also apply to sampling. As previously discussed, § 115 of the Copyright Act provides mandatory licensing by songwriters (or publishers controlling the musical composition copyright) to different musicians who wish to re-record the song so long as the licensee does not change the fundamental character of the work.<sup>121</sup> Supporters of

such an amendment argue that unlike covers, the use of samples almost always involves the addition of new and creative elements, and therefore the latter are almost more justifiably subject to compulsory licenses.<sup>122</sup> Furthermore, a unified source for clearance of licenses for use of sound recordings—operating similarly to The Harry Fox Agency, Inc. that administers mechanical licenses for musical compositions—would benefit everyone involved. Secondary users would be relieved of the burden of tracking down and negotiating clearances from the sound recording copyright owners and the copyright owner would be assured of royalty payments from the administrative body.

Opponents of such an amendment argue that the § 115(a)(2) limitation upon licensees that prohibits material alterations to the original work protects the interests of the copyright owner from concerns about secondary users altering their creative works in a way that would tarnish the integrity of the original work. This type of provision would not work for sound recordings because altering and adapting the work into something new is the whole point of sampling. Thus, similar creative control protections would make the compulsory license a moot point.

Another alternative is voluntary clearance for particular uses by the original copyright owner. This is a solution that has already been set in motion by Creative Commons, a non-profit organization whose purpose is to expand the range of creative works available for subsequent users to build upon and share without running afoul of copyright law.<sup>123</sup> Creative Commons licenses allow copyright owners to expressly reserve some rights while waiving others. Authors and artists who choose to publish their works with Creative Commons licenses have the choice of four conditions that can be mixed and matched to create the desired amount of individualized protection. An “Attribution” designation, which requires the secondary user to give artistic credit to the original author, is mandatory for all licenses. A “Share Alike” condition requires a secondary user to license its new creations under identical terms as those of the original. A “No Derivatives” designation allows for redistribution, commercially or not, of the intact, unchanged original work. “Non-Commercial” licenses allow others to alter the original work for non-commercial purposes.<sup>124</sup> For example, in March 2008, the band Nine Inch Nails released its album “Ghosts I-IV” under a Creative Commons Attribution-Non-Commercial-Share Alike license, which means that consumers are free to download, share, distribute, alter, remix, or otherwise transform the tracks, provided the secondary user gives attribution to the original artist, does not use the original works for commercial purposes and relicenses any derivative works under the same conditions as the original.<sup>125</sup> Another artist may decide that he or she does not want anyone else profiting from his or her work and choose to prohibit commercial distribution and alterations to the original work through an Attribution-Non-Commercial-No-Derivatives license.

Unfortunately, this solution creates only a limited pool of legally available sound recordings for sampling. While artists do seem to be moving toward a state of creative cooperation, this voluntary membership solution will still have a chilling effect on the creative process of artists such as Girl Talk. Unless release of rights via Creative Commons licenses were required by law, this solution is unlikely to resolve the problem faced by Girl Talk and other mash-up artists.

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*“Girl Talk has yet to be sued. This could indicate that the creative community has a general appreciation for the importance of allowing this kind of use.”*

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Finally, it is arguable that this problem could resolve itself without any changes to the current copyright regime. As noted earlier, Girl Talk has yet to be sued. This could indicate that the creative community has a general appreciation for the importance of allowing this kind of use. Musicians have always drawn upon influences of their predecessors. Hip-hop and rap artists have made use of sound recording samples since their very inception. Perhaps there is an unspoken understanding among artists that this practice is not only acceptable, but also encouraged. If the volumes of cases involving litigious musicians are indicative of Girl Talk’s likelihood of escaping unscathed, his chances do not look good. All it takes is one artist to bring down Girl Talk and other samplers the way Metallica brought down Napster and digital file-sharing. Once the first suit is filed, others will follow.

## Conclusion

This article has attempted to illustrate through application the shortcomings of the current legal regime that governs the often-admonished practice of digital sampling. Artists who lift digital samples out of copyrighted sound recordings and reuse them in works of their own have been demonized as lazy thieves who are only out to exploit the works of others. Yet in a digital age where technology allows for music to be created in wholly new ways, this view, reflected in the bright-line licensing rule of *Bridgeport Music*, is too narrow and archaic.

In late 2008, *Rolling Stone* released its year-end review of everything that mattered in music in that year. FTA was ranked number 24 on its Best Albums of the Year list.<sup>126</sup> This article has demonstrated that under all of the current applicable law, the odds are against Gregg Gillis if he is sued. The re-recording of sound alike is incompatible with the expression intended by samplers in general, and Gillis in particular. License clearance is prohibitively time consuming and expensive. Fair use is an unlikely shield due to complications of application and the extreme financial burden of litigation. Thus, none of the currently

available avenues for protection from infringement liability are open to Gillis.

There is a fundamental flaw in the copyright law generally, and the *Bridgeport Music* sampling regime specifically, if it would require courts to subject someone to liability who has contributed something to the artistic culture of our society. Such a regime is antithetical to the goals and intentions of the copyright law and should be overhauled to better fit the changing norms of the industry, advancing technology, and the plain and simple fact that art is more important than the rules.

## Endnotes

1. Since retired to embark on an ambitious North American touring schedule.
2. Robert Levine, *Steal This Hook? D.J. Skirts Copyright Law*, N.Y. TIMES, Aug. 7, 2008.
3. *Bridgeport Music v. Dimension Films*, 230 F. Supp. 2d 830, 842 (M.D. Tenn. 2002).
4. 410 F.3d 792.
5. See generally 1-1 Nimmer on Copyright § 1.03[A].
6. U.S. Const. art. I, § 8. cl. 8.
7. *Id.*
8. *Id.*
9. Act of 1790, 1st Cong., 2d Sess., ch. 15, 1 Stat. 124 (1790).
10. Copyright Act of 1976, Pub. L. No. 94-553, 90 Stat. 2541 (1976) (codified as amended at 17 U.S.C. §§ 101-1332).
11. 1-TL Nimmer on Copyright.
12. 17 U.S.C. § 102(a).
13. See 1-2 Nimmer on Copyright § 2.05.
14. It is common practice in the industry for a songwriter to assign 50% of its copyrights to a music publisher, which in exchange will control authorization of use and collection of licensing fees. See generally DONALD S. PASSMAN, ALL YOU NEED TO KNOW ABOUT THE MUSIC BUSINESS (6th ed. Free Press 2006).
15. *Id.* § 101 (“Phonorecords” are material objects in which sounds, other than those accompanying a motion picture or other audiovisual work, are fixed by any method now known or later developed, and from which the sounds can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device. The term “phonorecords” includes the material object in which the sounds are first fixed.)
16. *Id.* § 101 (“Sound recordings” are works that result from the fixation of a series of musical, spoken, or other sounds, but not including the sounds accompanying a motion picture or other audiovisual work, regardless of the nature of the material objects, such as disks, tapes, or other phonorecords, in which they are embodied.)
17. See 1-2 Nimmer on Copyright § 2.05[A].
18. *Id.*
19. See Sound Recording Copyright Act, Pub. L. No. 92-140, 85 Stat. 391 (1971).
20. A “derivative work” is a work based upon one or more preexisting works, such as a translation, musical arrangement, dramatization, fictionalization, motion picture version, sound recording, art reproduction, abridgment, condensation, or any other form in which a work may be recast, transformed, or adapted. A work consisting of editorial revisions, annotations, elaborations, or other modifications which, as a whole, represents an original work of authorship, is a “derivative work.” 17 U.S.C. § 101. The fact that Bridgeport Music did not attempt to claim infringement of its right to control derivative works is an interesting point that has caused this author and the mentors who assisted on this writing many hours of confusion. By the terms of the § 101 definition, a sound recording is itself a derivative work of a musical composition. One possible conclusion is that lifting of parts of the actual work eliminates the possibility of it being “recast, transformed, or adapted.” Further consideration of this question is beyond the scope of this article, but its inclusion within § 114(b) is indicative that Congress did intend some *de minimis* use to be permissible.
21. 17 U.S.C. § 114(b).
22. *Id.* § 106 (right to reproduce, right to prepare derivative works, right to distribute to the public, and the right to public performance and display).
23. See *id.* § 115(a).
24. *Id.* § 115(a)(2).
25. 1 Nimmer § 8.04[A].
26. “[A] device capable of taking any guitar sound, drum sound, voice, etc., and making a perfect digital copy.” PASSMAN, *supra* note 14, at 306.
27. See generally Wikipedia [http://en.wikipedia.org/wiki/Sampling\\_\(music\)](http://en.wikipedia.org/wiki/Sampling_(music)) (last viewed Feb. 19, 2008).
28. Sugar Hill Gang, *Rapper’s Delight* (Surgarhill Records 1979) (LP Record Single).
29. Chic, *Good Times/A Warm Summer Night* (Atlantic 1979).
30. It was bittersweet for The Verve. The song became a worldwide hit and has since been ranked as the 382nd best song of all time by ROLLING STONE (<http://www.rollingstone.com/500songs>). Yet as the song was reaching its pinnacle of chart success, former Rolling Stones manager Allen Klein, who owned the copyrights to the band’s pre-1970 songs, claimed that The Verve had violated the terms of their agreement by taking more than was covered in the license. Despite the fact that The Verve added many layers of completely original instrumentation and string arrangements, including the song’s recognizable orchestral melody, the young, fledgling band did not have much cash available and decided to settle the dispute by turning over 100% of the songwriting royalties rather than pursue an expensive litigation. Furthermore, shortly after the settlement another former Stones manager, Andrew Oldham, who owned the copyright to the sampled sound recording, decided to get in on the free money action. The Verve settled yet again, turning over 100% of the sound recording royalties. Therefore, the band that is responsible for one of the top rock songs of all time walked away with no control over its song. Very bittersweet indeed. See Wikipedia/Bittersweet Symphony *available at* [http://en.wikipedia.org/wiki/Bitter\\_Sweet\\_Symphony](http://en.wikipedia.org/wiki/Bitter_Sweet_Symphony).
31. 780 F. Supp. 182 (S.D.N.Y. 1991).
32. Exodus, Chapter 20: Verse 15.
33. *Grand Upright*, 780 F. Supp 182, 185.
34. 827 F. Supp. 282 (D. N.J. 1993).
35. See 4 Nimmer on Copyright, § 13.03[A][2][a] (“The question in each case is whether the similarity relates to matter that constitutes a substantial portion of plaintiff’s work—not whether such material constitutes a substantial portion of defendant’s work. . . . However, even if the similar material is quantitatively small, if it is qualitatively important, the trier of fact may properly find substantial similarity.”).
36. *Jarvis*, 827 F. Supp. at 292.
37. *Newton v. Diamond*, 204 F. Supp. 2d 1244 (C.D. Cal. 2002).
38. *Newton v. Diamond*, 349 F.3d 591 (6th Cir. 2003).
39. *Bridgeport Music*, 230 F. Supp. 2d 830 (M.D. Tenn. 2002).
40. 410 F.3d 792 (6th Cir. 2005).
41. *Id.* at 801.

42. At the time of the *Bridgeport* decision there were hundreds of other cases pending involving digital sampling. *See id.* at 802.
43. Except for the common law copyright protections, of course. *See id.* at 804, n.20.
44. Although, concededly, Weird Al has managed to jump genres with relative success.
45. *Bridgeport Music*, 410 F.3d at 800.
46. For example, although it is nearly untraceable, Wikipedia reports that the very first sample featured on “Play Your Part (Pt. 1),” the first track on “Feed the Animals,” is Roy Orbison’s “Oh, Pretty Woman,” which itself was the subject of *Campbell v. Acuff-Rose* (discussed *infra* note 47).
47. Telephone Interview with Gillian Jones, Director of Business & Legal Affairs, Evan M. Greenspan, Inc. (Jan. 22, 2009).
48. [www.allmusic.com](http://www.allmusic.com).
49. *See* [http://www.clearance.com/get\\_yourself.htm](http://www.clearance.com/get_yourself.htm).
50. Jones, *supra* note 47.
51. *Id.*
52. *Id.*
53. *Id.*
54. 1.75 cents per minute of playing time or fraction thereof, whichever is greater, per recording made and distributed. 17 U.S.C. § 115(2) (as amended by 1997 Mechanical Rate Adjustment Proceeding).
55. Jones, *supra* note 47.
56. Josh Norck, Note, *You Can’t Sing Without the Bling: The Toll of Excessive Sample License Fees on Creativity in Hip-Hop Music and the Need for a Compulsory Sound Recording Sample License System*, 11 UCLA Ent. L. Rev 83, 89 (2004).
57. [www.clearance.com](http://www.clearance.com).
58. [www.signature-sound.com](http://www.signature-sound.com).
59. [www.themusicbridge.com](http://www.themusicbridge.com).
60. Jones, *supra* note 47.
61. *Id.*
62. *See* Jeannine M. Marques, Note, *Fair Use in the 21st Century: Bill Graham and Blanch v. Koons*, 22 Berkeley Tech. L.J. 331 (2007).
63. Notwithstanding the provisions of §§ 106 and 106A, the fair use of a copyrighted work, including such use by reproduction in copies or phonorecords or by any other means specified by that section, for purposes such as criticism, comment, news reporting, teaching (including multiple copies for classroom use), scholarship, or research, is not an infringement of copyright. In determining whether the use made of a work in any particular case is a fair use the factors to be considered shall include—
  - (1) the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes;
  - (2) the nature of the copyrighted work;
  - (3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and
  - (4) the effect of the use upon the potential market for or value of the copyrighted work.

The fact that a work is unpublished shall not itself bar a finding of fair use if such finding is made upon consideration of all the above factors. 17 U.S.C. § 107 (2008).
64. *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 578 (1994).
65. *See generally* *Pharmacy Records v. Nassar*, 248 F.R.D 507, 526 (E.D. Mich. Mar. 31, 2008); *King Records, Inc. v. Bennett*, 438 F. Supp. 2d 812, 849–851 (M.D. Tenn. June 20, 2006).
66. *EMI Records, Ltd. v. Premise Media Corp.*, No. 601209/08, Slip Op. (N.Y. Sup. Ct., Aug. 8, 2008).
67. John Lennon, *Imagine* (Apple/EMI 1971).
68. Rocky Mountain Pictures (April 2008).
69. *See* Sound Recording Copyright Act, Pub. L. No. 92-140, 85 Stat. 391 (1971).
70. 4 Nimmer on Copyright § 13.03[2][b].
71. *Id.*
72. *EMI Records*, No. 601209/08 Slip Op. at 10.
73. *Id.* at 13.
74. 448 F.3d 605 (2d Cir. 2006).
75. *Id.* at 609.
76. *Id.*
77. *Id.* at 611.
78. 336 F.3d 811 (9th Cir. 2003) (finding that a Web site’s thumbnail images of the plaintiff’s photographs to be a transformative use because the purpose of the Web site’s use was for reference as opposed to artistic expression).
79. *Bill Graham Archives*, 448 F.3d at 612.
80. *Id.* at 614 (citing *Princeton Univ. Press v. Michigan Document Servs.*, 99 F.3d 1381, 1387 (6th Cir. 1996)).
81. [www.illegalart.net](http://www.illegalart.net).
82. ROLLING STONE, Issue 1068/1069, Dec. 25, 2008 at 91.
83. Robert Levine, *Steal This Hook? D.J. Skirts Copyright Law*, N.Y. TIMES (Aug. 7, 2008).
84. *See* <http://illegalart.net/webshop/section.php?section=girltalk>.
85. Michael D. Ayers, *White Noise: Girl Talk Has Built a Thriving Indie Following for his Sample-Centric Music in a Copyright Grey Area. Will His Next Album Push the Legal Envelope Even Further?*, BILLBOARD, vol. 120, no. 4 (June 14, 2008).
86. That is just the face value price. Those who purchased tickets on Craigslist paid much more.
87. 510 U.S. 569 (1994).
88. *Id.* at 579.
89. *Id.*
90. Sara Cardace, *Pants-Off Dance-Off: Gregg Gillis, a.k.a. Girl Talk, Purees James Taylor and Ludacris into a Soundtrack for Stripping*, Nerve.com Oct. 1 2006, available at <http://www.nerve.com/screeningroom/music/girltalk/>.
91. Ryan Dombal, *Girl Talk Pitchfork Interview*, Aug. 30, 2006 (“I’m not trying to make a point about sampling.”) available at <http://www.pitchforkmedia.com/article/feature/37785-interview-girl-talk>.
92. Although it could be argued that the songs should be considered as a cohesive whole rather than as each fragmented element. No analogous facts have ever been presented to assist in gauging whether courts would be open to finding the songs are a parody of music generally rather than a specific original work.
93. *EMI Records*, No. 601209/08 Slip Op. at 12, n.5 (Judge Lowe cited *Blanch v. Koons*, 467 F.3d 244, 255 (2d Cir. 2006) where the Second Circuit pointed out that courts have applied *Campbell* in too many non-parody cases to require citation for the proposition that its broad principles are not limited to cases involving parody).
94. Guilty.
95. *Bill Graham Archives*, 448 F.3d at 608 (citing U.S. Const. art. I, § 8, cl. 8).
96. *See supra* note 43.
97. *Campbell*, 510 U.S. at 586.
98. *Id.*
99. *Bill Graham Archives*, 448 F.3d at 612.

100. *Id.* (citing *Campbell* at 586).
101. *Id.*
102. See, e.g., *Campbell*, 510 U.S. at 588 (finding that copying does not become excessive in relation to parodic purpose merely because the portion taken was the heart of the original); *Kelly v. Arriba Soft*, 336 F.3d 811, 821 (concluding that images used for a search engine database are necessarily copied in their entirety for the purpose of recognition); *Nunez v. Caribbean Int'l News Corp.*, 235 F.3d 18, 24 (1st Cir. 2000) (finding that use of any less than the whole of a photograph for a news story would have made the picture useless).
103. *EMI Records*, No. 601209/08 Slip Op. at 16.
104. Chat Room Blog, *Girl Talk's Gregg Gillis on His New Album, Making Listeners Puke, and Why He's Pretty Sure He Won't Get Sued*, N.Y. MAGAZINE (June 23, 2008), [http://nymag.com/daily/entertainment/2008/07/girl\\_talks\\_greg\\_gillis\\_on\\_his.html](http://nymag.com/daily/entertainment/2008/07/girl_talks_greg_gillis_on_his.html).
105. *Campbell*, 510 U.S. at 589.
106. *EMI Records*, No. 601209/08 Slip Op. at 18.
107. See *supra* note 43.
108. See *Campbell*, 510 U.S. at 590. See also *Harper & Row v. The Nation*, 471 U.S. 539 at 568 (1985).
109. *Campbell* at 591 (discussing *Sony Corp. v. Universal City Studios*, 464 U.S. 417, 455, n.40 (1984)) (internal quotations omitted).
110. See *supra* note 16. Is a mash-up "based upon" any of the original works? The language of and examples cited in the § 101 definition suggests not.
111. *Bill Graham Archives*, 448 F.3d at 614 (citing *Am. Geophysical Union v. Texaco, Inc.*, 60 F.3d 913, 930, n.17 (2d Cir. 1994)).
112. *Id.* at 615.
113. 103 Harv. L. Rev. 1105, 1112 (1990).
114. LAWRENCE LESSIG, *REMIX: MAKING ART AND COMMERCE THRIVE IN THE HYBRID ECONOMY* at 105 (Penguin Press 2008).
115. *Id.* at 266.
116. *Id.* at 254.
117. *Id.* at 263.
118. *Id.* at 267.
119. *Id.* at 271.
120. *Id.* at 270.
121. *Id.* at 262.
122. Josh Norck, Comment, *You Can't Sing Without the Bling: The Toll of Excessive Sample License Fees on Creativity in Hip-Hop Music & the Need for a Compulsory Sound Recording Sample License System*, 11 UCLA Ent. L. Rev. 83, 94 (2004).
123. See [www.creativecommons.org](http://www.creativecommons.org).
124. See <http://creativecommons.org/about/licenses/>.
125. See [http://wiki.creativecommons.org/Nine\\_Inch\\_Nails\\_Ghosts\\_IV](http://wiki.creativecommons.org/Nine_Inch_Nails_Ghosts_IV).
126. ROLLING STONE, Issue 1068/1069, Dec. 25, 2008 at 91.

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# Navigating the Clouds: Exploring Revenue Sources for Creators in a Networked World

By Jason J. Lunardi

## I. Music in the Cloud

Imagine a world where any song is available for play on-demand, for free; where the gatekeepers of traditional media are neutralized, and any musician can distribute his or her product on a level playing field. If this sounds familiar, it is because this world has largely arrived. What had once been called the “celestial jukebox”<sup>1</sup> has essentially taken shape over the last few years through a mesh of online services—some legitimate, and some questionable.<sup>2</sup> It seems that we are close to realizing the vision of having any piece of recorded music available on request by the listener, at any time and place, from any device.<sup>3</sup> The new buzz word describing these networked services is “cloud computing”—the trend of shifting computing chores from individual desktops to be handled as services over the Internet.<sup>4</sup> Many technology companies are offering new services based on information in the cloud,<sup>5</sup> from e-mail to word processing, to watching video, and music.<sup>6</sup> Similarly, having access to any song without physically owning it has been called “music in the cloud.”<sup>7</sup>

This article will discuss how the law should best address the development of the celestial jukebox, with a ubiquity of digital streaming music services. Assuming that sales of recorded music continue to decline, musicians and performing artists will need an adequate alternative income. Public performance royalties should be a major part of the solution, but to make this viable, the right must be expanded. Specifically, the system of blanket licenses and competing organizations for collecting performance royalties should be utilized to a fuller extent. While collective licensing is promising, conversely, any solution that includes non-voluntary collective licensing would present problems. The best solution would be one that leaves control in the hands of the creators of music, allowing for a market value for their works. It could involve blanket licenses, but also the choice to refuse to participate if creators desire to negotiate individually. As the industry moves toward a world where more media are streamed over networks, the ability of creators to continue to derive revenue from their works should be a concern to everyone. As Justice Oliver Wendell Holmes wrote in *Herbert v. Shanley Co.*, “[i]f music did not pay, it would be given up.”<sup>8</sup>

### A. Sales of Physical Recorded Music Formats in Decline

The market for recorded music has been in decline for several years, and record labels and independent artists alike are struggling to sell CDs.<sup>9</sup> The Internet and other digital networks have changed the marketplace

for music, simultaneously changing consumer buying habits.<sup>10</sup> Although the music industry resisted the digital revolution by implementing DRM and suing its customers for file-sharing, the result was still a decline in music sales.<sup>11</sup> Perhaps the Internet truly cannot co-exist with a revenue model based mostly on sales of works that can easily be rendered and exchanged in a digital format.<sup>12</sup> Nevertheless, while physical product sales are in decline, digital formats have to some degree filled the void. In the last quarter for 2008, Atlantic Records reported that, for the first time, sales of digital music surpassed CD sales.<sup>13</sup> However, the record companies have yet to fully recapture the consumers’ willingness to pay for digital music, possibly having lost many to the ease of free file-sharing networks.

If record labels and musicians are not generating as much revenue through sales of recorded music, other revenue streams must compensate. The bare facts are that, for most styles of music, creating a quality sound recording requires an initial outlay of money. Logic dictates that unless created purely as promotional materials for other revenue-generating activities, there is little incentive to record music as a professional musician.

Luckily, there are other income streams for most musicians. Labels have begun to embrace the idea of signing artists to multi-rights “360” deals because of the stronger value in areas like touring, merchandising, and publishing.<sup>14</sup> Therefore, coupled with the trend toward cloud computing services, the right to control transmissions of musical works becomes vital to having a stream of income.

### B. Ad-Supported Music Streaming as the Way Forward

Take, for example, the recently launched MySpace Music service.<sup>15</sup> This has the potential to seriously shake up the recorded music industry, just as the iTunes Music Store has done.<sup>16</sup> With MySpace’s offering, users have the ability to get basically any music they want, including catalogue titles, plus the ability to arrange their own playlists, all for free.<sup>17</sup> MySpace, in turn, makes money from advertising on the Web site. It is theoretically possible that streaming services like MySpace could be coupled with portable music players,<sup>18</sup> thus eliminating the need to “own” the recorded music at all.<sup>19</sup> Other services such as Last.FM and Pandora already have applications for the iPhone that stream advertising-supported music to mobile devices.<sup>20</sup> The major labels are taking note and trying to monetize this platform as an addition to their traditional revenue sources.<sup>21</sup>

A December 2008 editorial in the *Los Angeles Times* extolled the benefits of giving “free music” to the consumer while monetizing through advertising.<sup>22</sup> The editorial was attempting to defend “playlist sites”<sup>23</sup> that allow users to organize and share lists of music available for streaming on the Internet. It pointed out that files were not actually hosted by the playlist sites, although they allowed users to play the songs through built-in music players on the site. This is one example of the trend of engineering digital music services to avoid licensing fees entirely.<sup>24</sup>

## II. Ray of Light: Expanding the Performance Rights Model Could Provide a Solution

Among other rights, federal copyright law grants authors of musical works the exclusive right to publicly perform their works.<sup>25</sup> In addition, a digital public performance right was granted in 1995 for sound recordings.<sup>26</sup> Public performance royalties make up a significant portion of a songwriter’s income and could be an ever-increasing percentage of the whole as music sales decline. However, there are statutory limitations to these grants of rights, and further judicial limitations. Furthermore, in an Internet context it is sometimes unclear when a transmission is a “performance” of the work, a “reproduction” of the work, or both.<sup>27</sup> To deal with this problem, some scholars have proposed a “digital transmission right” that would combine the disparate legal rights involved in Internet music transmissions.<sup>28</sup> Others predict that all Internet transmissions eventually will be considered public performances, thereby rendering the controversy moot.<sup>29</sup> This author proposes a solution whereby the traditional public performance rights are strengthened so that more digital transmissions can fit under the statutory definition, thereby allowing the already robust royalty collection system to fill more of the revenue void left by declining physical sales. This system would also preserve the essential free-market mix of voluntary collective licensing and individual licensing deals.

### A. Strengthen and Clarify Performance Rights for Both Musical Works and Sound Recordings

Copyright law makes a distinction between the “musical works”—the notes and lyrics of a song—and the “sound recording” of that work—when a recording artist fixes an audible version of the musical composition in a tangible medium of expression.<sup>30</sup> Typically, the copyright in the musical work is held by the composer/lyricist and the music publisher. The copyright in the sound recording could be held by the record company, performing artist and studio musicians on the recording.<sup>31</sup> In the context of digital transmissions over networks—the kind comprising cloud-music models—both these rights are invoked. With the proper arrangement, then, all parties can be properly compensated.

The public performance right for musical compositions was one of the earliest rights to be reserved under the law, having its origins in 19th Century Europe.<sup>32</sup>

When the right was first adopted in the U.S. on January 6, 1897,<sup>33</sup> this country came in line with the rights afforded by European countries and the requirements for entry to the Berne Convention.<sup>34</sup> By granting a property right in controlling the use of musical works, the public performance right allowed the creator to maintain a revenue stream from authorized uses.<sup>35</sup> This right continues to be an important one for musicians. In fact, the public performance right has become one of the principal sources of revenue for composers and songwriters.<sup>36</sup>

## Performance of Musical Works

The statutory language of § 106(4) is broad, defining a public performance of a work as “acts that transmit or otherwise communicate a performance or display of the work to the public”<sup>37</sup> through a method “either directly or by means of any device of process.”<sup>38</sup> The House Report to the 1976 Copyright Act suggests that the concept of public performance should be interpreted broadly.<sup>39</sup> Notably, it defines public performance as “includ[ing] all conceivable forms and combinations of wired or wireless communication.”<sup>40</sup> This broad wording seems to anticipate the development of new communication means, and implies the intent that copyright protection be extended to any new outlets.

An important statutory limitation is that for copyright infringement, an unauthorized performance must also be “public.”<sup>41</sup> The statutory definition makes it explicit that this includes members of the public receiving the transmission “in the same place or in separate places and at the same time or at different times.”<sup>42</sup> This wording is also broad enough to allow the copyright owner the right to control performances over broadcast media as well as Internet streaming and on-demand services, even when listeners are located in relatively private spaces.<sup>43</sup>

## Performance of Sound Recordings

Beginning in 1995, record companies and performers could avail themselves of a performance right in the sound recording itself. A new performance rights agency, called SoundExchange, was created to collect and disburse royalty payments on behalf of these parties.<sup>44</sup>

For digital performances of sound recordings, the law sets out three tiers of protection:<sup>45</sup> (1) some performances are completely exempt;<sup>46</sup> (2) some performances are subject to a compulsory license;<sup>47</sup> (3) and some performances require licenses to be individually negotiated from the record label.<sup>48</sup>

As interactive digital streaming cannot take advantage of a compulsory license or SoundExchange’s collective licensing, it puts a burden on any music service with this architecture. Many services being developed for the Internet make use of offering interactive choices of music, but face this barrier to becoming legitimate. Larger services like MySpace may be able to negotiate fairly for content, while smaller services are left out. A more just so-



lution would involve the expansion of a collective license system to cover interactive digital streaming.

## **B. Reverse the Limitations on the Performance Right**

Although the statutory grant of rights is broad, courts have begun to draw lines limiting the right with regard to new media and the Internet. In a recent case many consider to be the first major legal challenge to the cloud computing business model, the Second Circuit in *Cartoon Network LP v. CSC Holdings Inc.*<sup>49</sup> held there is no public performance when there is a 1-to-1 transmission of a copyrighted work from a remote digital video recording service to the customer.<sup>50</sup> The holding that neither the copyright owners' rights of reproduction or public performance were infringed by the Cablevision system clears the way for other companies to implement similar systems to deliver digital media.<sup>51</sup> Decisions like this should be litigated to ensure that a performance right does not disappear from digital networks.

## **C. Use the Model of Competitive Collecting Societies**

The system for collecting public performance royalties has had almost 100 years to develop.<sup>52</sup> Performing Rights Organizations (PROs) generate, collect and distribute income from the public performance of music on behalf of publishers and writers.<sup>53</sup> The PROs utilize a blanket licensing system where licensees pay fees in exchange for access to all the musical compositions in their repertoire.<sup>54</sup> This arrangement reduces transaction costs by providing an alternative to negotiating permission for use of each work. The PROs then calculate royalties based on frequencies of performances, and distribute payment to their members.<sup>55</sup> There are three PROs in the U.S., ASCAP, BMI and SESAC. Having competitive collecting organizations creates an incentive for improved royalty collection methods and streamlined operations.<sup>56</sup>

## **D. Clarify the Licensing Process: Expanding the Use of Voluntary Collective Licensing**

The law should clarify what licenses are needed for legitimate music services. The Register of Copyrights, Marybeth Peters, even noted that "what I believe to be the most important policy issue that Congress must address is the lack of clarity regarding which licenses are required for the transmission of music."<sup>57</sup> In 2007, the Southern District of New York held that there is no public performance in music transmissions that are downloaded in their entirety before audio playback commences.<sup>58</sup> However, in the same decision, the court clarified that real-time streaming is in fact a public performance.<sup>59</sup> This highlights the dilemma that certain transmissions trigger one exclusive right and require one type of license, where a different transmission could trigger a different right and require a completely different license, depending on the specific facts.<sup>60</sup> Not only is there confusion as to licenses, but this multi-right system may appear to some

as "double-dipping," because publishers would be taking both a mechanical royalty and a performance royalty for the same transmission.<sup>61</sup>

In the context of cloud-music, however, the distinction between performance and reproduction could disappear altogether because listeners could, in the words of some theorists, "call up a musical genre, a musical era, an album, the collective works of a particular songwriter or composer, . . . or just a particular song and do so without storing 'copies' on a CD, an iPod, or a hard drive."<sup>62</sup> Additional legislative acts may help smooth the process by explicitly expanding the statutory scope of public performance. If certain digital transmissions were eligible for collective licensing—for example, ad-supported file-sharing systems, or mixtape sites—it opens up the possibility of using the established system of competitive collecting societies to generate revenue for songwriters, publishers, performers, and record companies.

Expanding the current system of voluntary collective licensing for performances to include transmissions that would ordinarily be considered reproductions would be preferable to imposing a compulsory royalty system and a "music tax" on all Internet customers through ISPs, phone companies, or schools. Since 2004, the Electronic Frontier Foundation (EFF) has been advocating a voluntary collective licensing system for file-sharing systems, which is a step in the right direction, but involves the creation of a new collection society.<sup>63</sup> In addition, any taxation or compulsory system would have problems; taking away the individual's right to decide what to do with his or her work, and creating competition for royalties within the system among musicians.<sup>64</sup>

## **III. The Silver Lining: Free Music as Promotion**

### **A. It Is Unlikely That Record Sales Will Completely Evaporate**

Even with a celestial jukebox, it is likely that there will still be sales of recorded music product. Some artists have experimented with releasing vinyl records or deluxe box-sets for dedicated fans.<sup>65</sup> Free music streaming can also benefit the independent musician by leveling the playing field once dominated by only a few industry gatekeepers, facilitating listeners with discovering new music, and allowing musicians to connect more directly with the audience.<sup>66</sup> Some people theorize that the wealth of outlets for discovering music is helping to create a "musician middle-class," where artists are able to sustain careers without needing to achieve superstardom.<sup>67</sup>

Some scholars propose a re-tooling of the statutory language of the Copyright Act to make it clearer, even at the expense of breadth of protection. Professor Sara Stadler suggests that composers would not be that disadvantaged if they did not have an exclusive right to control public performances of their works.<sup>68</sup> Using the existence of payola by record companies as proof, she argues that

public performances, such as radio play, serve as valuable promotion for the sales of recorded music, thereby giving composers increased revenues from sales of recorded music and the accompanying mechanical licenses.<sup>69</sup> This argument assumes that music sales will continue to be strong in the future. Public performances certainly do serve as promotion—but whether they will continue to translate into sales of recorded music is uncertain.

Stadler alternatively argues that the public performance portion of synchronization licenses for music usage in movies and television programs is unnecessary because composers would be able to make adequate revenue through sales of soundtrack CDs and mechanical royalties from the distribution of the music on DVDs.<sup>70</sup> However, the more video content is delivered “on-demand” or through streaming services, the less this model makes sense, and the more the composer needs the revenue directly from the transmission.

## B. Free Music Can Promote Other Revenue Streams

Artists are able to leverage the publicity power of the Internet and free music streaming to generate revenue through other avenues. For example, if more people are familiar with an artist’s music, it follows that there would be a bigger audience for that artist’s concerts, more merchandise sold, and possibly even more licensing deals or endorsements.<sup>71</sup>

One problem with this solution is that it unduly favors artists from certain genres of music where live performance and merchandise sales are likely to generate revenue. The reality is that certain artists may be excellent songwriters and studio musicians, but are unexciting in a live setting.

## Conclusion

Even considering the alternate scenario, where recorded music becomes a mere promotional tool, the best solution is to enhance the royalty collection from digital transmissions. Although new methods of music delivery are potentially opening doors for independent musicians, there should continue to be royalties paid to composers, publishers, performers, and record companies for digital transmissions of sound recordings to the public. Nevertheless, a balance is needed. While ensuring that musical creators still have the ambition and finances to pursue their works, a solution that ends up putting innovative companies completely out of business would not be a good alternative. It is the progress of technology that allows new markets to develop. However, as the business model for musicians shifts away from reliance on selling recorded music, it is not the time to weaken the scope of the public performance right; rather, the benefits of the system could be used in a broader context.

## Endnotes

1. See Paul Goldstein, *Copyright’s Highway: From Gutenberg to the Celestial Jukebox* (2003); see also William W. Fisher, *Promises to Keep 25* (2004) (attributing the term to Paul Goldstein and Sen. Orrin Hatch).
2. While many new music services work with record companies for licenses—for example, iMeem, <http://www.imeem.com>—others are content to claim that the law does not apply to them. See, e.g., MP3Tunes, <http://www.mp3tunes.com>; see also Posting by Eliot Van Buskirk to Wired Listening Post Blog, *Michael Robertson Discusses MP3.com, EMI Lawsuit, New MP3Tunes Features*, <http://blog.wired.com/music/2008/02/in-a-half-hour.html> (February 27, 2008, 02:53:19 PM).
3. See Eliot Van Buskirk, *Celestial Jukebox Arrives, But Is It Any Good?*, WIRED.COM, March 22, 2008, [http://www.wired.com/gadgets/miscellaneous/news/2008/03/omniphone\\_review\\_feature](http://www.wired.com/gadgets/miscellaneous/news/2008/03/omniphone_review_feature) (new phone attempts to fulfill “the ‘music in the cloud’ promise of the long-lauded celestial jukebox”); Jeremy Rifkin, *Where Napster Has Gone, Others Will Follow*, L.A. TIMES, Aug. 21, 2000, at C9 (predicting that Napster would be the start a new genre of business models that operate by a “network mentality”).
4. Steve Lohr, *Google and I.B.M. Join in “Cloud Computing” Research*, N.Y. TIMES, Oct. 8, 2007, <http://www.nytimes.com/2007/10/08/technology/08cloud.html>.
5. John Markoff, *Software via the Internet: Microsoft in ‘Cloud’ Computing*, N.Y. TIMES, Sept. 3, 2007, <http://www.nytimes.com/2007/09/03/technology/03cloud.html> (“Millions of PC users already rely on Web applications that either provide a service or store data. For instance, Yahoo and Google do their own forms of cloud computing, offering popular e-mail programs and photo-sharing sites that are accessible through a Web browser. The photos or the e-mail messages are stored on those companies’ servers. The data is accessible from any PC anywhere.”).
6. See, e.g., Gmail, <http://www.gmail.com>; Google Apps, <http://apps.google.com>; Hulu, <http://www.hulu.com>; iMeem, <http://imeem.com>.
7. See Michael Robertson, *Cloud Video Is Legal, How About Cloud Music?*, Aug. 5, 2008, [http://michaelrobertson.com/archive.php?minute\\_id=270](http://michaelrobertson.com/archive.php?minute_id=270).
8. 242 U.S. 591, 595 (1917).
9. A study compiled by International Federation of the Phonographic Industry (IFPI) shows reduced record sales globally. See IFPI, *RECORDED MUSIC SALES 2007*, available at [http://www.ifpi.com/content/section\\_statistics/index.html](http://www.ifpi.com/content/section_statistics/index.html) (statistics compiled by the International Federation of the Phonographic Industry). For U.S. sales figures over a 10-year period, see RIAA, *2007 YEAR-END SHIPMENT STATISTICS*, available at <http://76.74.24.142/81128FFD-028F-282E-1CE5-FDBF16A46388.pdf>.
10. In 2008, sales of digital tracks rose, but total albums dropped—most likely because consumers are buying more singles and fewer full albums. See Ben Sisario, *Music Sales Fell in 2008, but Climbed on the Web*, N.Y. TIMES, Jan. 1, 2009, at C1 (“Physical album sales fell 20 percent to 362.6 million from 450.5 million, while digital album sales rose 32 percent to a record 65.8 million units.”).
11. See Justin Hughes, *On the Logic of Suing One’s Customers and the Dilemma of Infringement-Based Business Models*, 22 CARDOZO ARTS & ENT. L.J. 725, 726 (2005).
12. See Bennett Lincoff, *Common Sense, Accommodation and Sound Policy for the Digital Music Marketplace*, 2 J. INT’L MEDIA & ENT. L. 1, 3 (2008).
13. See David Chartier, *Atlantic Makes Label History as Digital Sales Surpass CDs*, ARS TECHNICA, Nov. 26, 2008, <http://arstechnica.com/news.ars/post/20081126-atlantic-makes-label-history-as-digital-sales-surpass-cds.html>.
14. “[A]s part of our transformational effort to broaden our role in the music business, we continue to expand our rights in recording

- agreements with new artists around the world giving us a presence in the greater music and artist services businesses that will be increasingly meaningful over time. And . . . we continue to develop our Music Publishing business by strengthening artist roster and catalog and expanding our digital presence while delivering improved results.” Edgar Bronfman, CEO, Warner Music Group, 4th Quarter 2008 Earnings Conference Call, Nov. 25, 2008, transcript available at <http://seekingalpha.com/article/108201-warner-music-group-corp-f4q08-qtr-end-09-30-08-earnings-call-transcript?page=-1>.
15. MySpace Music, <http://music.myspace.com>.
  16. Chris Taylor, *The 99c Solution: Steve Jobs' new Music Store Showed Foot-Dragging Record Labels and Freeloading Music Pirates That There Is a Third Way*, TIME, Nov. 17, 2003, at 66.
  17. See Michael Arrington, *MySpace Music Puts the Industry on the Right Track*, TECHCRUNCH, <http://www.techcrunch.com/2008/09/25/myspace-music-puts-the-industry-on-the-right-track/>.
  18. See Anupreeta Das, *MySpace Could Develop Digital Music Player*, REUTERS, <http://www.reuters.com/article/internetNews/idUSTRE4A612L20081107>.
  19. See Posting of Perpetual Motion to <http://perpetualmotion.wordpress.com/2006/09/02/music-ownership-vs-control> (Sept. 2, 2006, 1:13PM) (arguing that the concept of “control” is more important than “ownership” in the context of digital music).
  20. The Apple iPhone, coupled with the free Pandora application, currently allows listeners to stream free music, customized to their listening preferences, through any WiFi Internet connection or the phone’s mobile network. See Posting of Eliot Van Buskirk to the Wired Listening Post Blog, *Sweet: Pandora's Streaming Radio App for iPhone*, <http://blog.wired.com/music/2008/07/sweet-pandora-o.html> (July 10, 2008, 05:03:04PM).
  21. See Statement of Alex Valassopoulos, Head of Business Development—Digital, Sony BMG, at Music Tank Conference, London, *Celestial Jukebox: Free Streams or Pipe Dreams?*, May 6, 2008, available at <http://davidjennings.vox.com/library/post/celestial-jukebox-free-streams-or-pipe-dreams.html> (“Download to own is still top priority because of the economics. Subscription is next most valuable. Streaming and micropayments are third . . . Need to try every model out there.”).
  22. Editorial, *Let Music Lead the Way*, L.A. TIMES, Dec. 26, 2008, <http://www.latimes.com/news/opinion/editorials/la-ed-music26-2008dec26,0,2143252.story>.
  23. See, e.g., Muxtape, <http://www.muxtape.com/>. The Web site has been shut down due to pressure from record labels. See Eric Bangeman, *RIAA Confirms It's Behind the Muxtape Shutdown*, ARS TECHNICA, Aug. 19, 2008, <http://arstechnica.com/news.ars/post/20080819-riaa-confirms-its-behind-the-muxtape-shutdown.html>.
  24. “Should companies be able to use clever technological constructs to exempt themselves from the biggest cost of doing business?” Posting of Jon Healey to <http://opinion.latimes.com/bitplayer/2008/01/seeqpodsturn-t.html> (Jan. 28, 2008, 11:42 AM). What may be a “clever technological construct” in one person’s opinion may just as rightfully be called “innovation” by another. See Posting of Fred von Lohmann to <http://opinion.latimes.com/bitplayer/2008/01/seeqpodsturn-t.html> (Jan. 31, 2008, 09:35 AM).
  25. 17 U.S.C. § 106(4) (granting the exclusive right, “in the case of literary, musical, dramatic, and choreographic works, pantomimes, and motion pictures and other audiovisual works, to perform the copyrighted work publicly”). The other exclusive rights included in the 1976 Copyright Act are: Reproduction, 17 U.S.C. § 106(1); Preparation of Derivative Works, 17 U.S.C. § 106(2); Distribution, 17 U.S.C. § 106(3); Public Display, 17 U.S.C. § 106(5).
  26. Digital Performance Right in Sound Recordings Act of 1995, Pub. L. No. 104-39, 109 Stat. 336 (1995) (codified at 17 U.S.C. § 106(6)).
  27. Ralph Oman & Michael P. Ryan, *The Songwriters' Performing Rights Organization Imperative and Copyright Law for the Music Electronic Marketplace*, available at <http://pub.bna.com/ptcj/OmanOct27.htm>.
  28. Lincoff, *supra* note 14, at 9 (“This digital transmission right would be a new right, not an additional right. It would replace the parties’ now-existing reproduction, public performance and distribution rights for purposes of digital transmissions.”).
  29. See Oman & Ryan, *supra* 29 (“We predict that everything will be a public performance in the future music electronic marketplace and, thus, that the copyright law performing right-reproduction right question will recede from policy discussions.”).
  30. 17 U.S.C. §§ 102(a)(2), (7).
  31. See Brian T. Yeh, Congressional Research Service Report, *Expanding the Scope of the Public Performance Right for Sound Recordings: A Legal Analysis of the Performance Rights Act of 2007 (H.R. 4789 and S. 2500)*, available at [http://www.ipmall.info/hosted\\_resources/crs/RL34411\\_080515.pdf](http://www.ipmall.info/hosted_resources/crs/RL34411_080515.pdf).
  32. See Matthew S. DelNero, *Long Overdue? An Exploration of the Status and Merit of a General Public Performance Right in Sound Recordings*, 51 J. COPYRIGHT SOC’Y U.S.A. 473, 480 (2007).
  33. Act of January 6, 1897, 54th Cong., 2d Sess., Ch. 4, 26 Stat. 481–482; see also U.S. Copyright Office, *A Brief Introduction and History*, Circular 1a, <http://www.copyright.gov/circs/circ1a.html> (revised Jan. 2005).
  34. See DelNero, *supra* 34, at 480; Oman & Ryan, *supra* note 29.
  35. 17 U.S.C. § 106(4).
  36. See DONALD E. BIEDERMAN ET AL., LAW AND BUSINESS OF THE ENTERTAINMENT INDUSTRIES 667 (5th ed. 2007).
  37. 17 U.S.C. § 106(4).
  38. 17 U.S.C. § 101 (“To ‘perform’ a work means to recite, render, play, dance, or act it, either directly or by means of any device or process or, in the case of a motion picture or other audiovisual work, to show its images in any sequence or to make the sounds accompanying it audible.”).
  39. *David v. Showtime/The Movie Channel, Inc.*, 697 F. Supp. 752, 758 (S.D.N.Y. 1988) (examining the House Report). The Report defined “transmission” to include “[e]ach and every method by which the images or sounds comprising a performance or display are picked up and conveyed.” H.R. Rep. No. 94-1476 at 64 (1976), *reprinted in* 1976 U.S.C.C.A.N. 5659, 5678.
  40. H.R. Rep. No. 94-1476 at 63, 64.
  41. 17 U.S.C. § 101. The Copyright Act defines this as:
    - (1) to perform or display it at a place open to the public or at any place where a substantial number of persons outside of a normal circle of a family and its social acquaintances is gathered; or
    - (2) to transmit or otherwise communicate a performance or display of the work to a place specified by clause (1) or to the public, by means of any device or process, whether the members of the public capable of receiving the performance or display receive it in the same place or in separate places and at the same time or at different times.
  42. *Id.*
  43. There is evidence that Congress originally intended to prohibit only those performances “in such public places as concert halls, theaters, restaurants, and cabarets.” *Twentieth Century Music Corp. v. Aiken*, 422 U.S. 151, 157 (1975) (citing H.R. Rep. No. 60-2222 (1909)); see also H.R. Rep. No. 60-2222, at 4 (noting that section (d) of the 1909 Copyright Act was “intended to give adequate protection to the proprietor of a dramatic work” whose “compensation comes solely from public representation of the work”). However, courts have consistently construed the word “public” to include more private places and smaller groups of people. See, e.g., *Columbia Pictures Indus., Inc. v. Aveco, Inc.*, 800 F.2d 59 (3d Cir. 1986) (holding that a company that rented

- individual viewing rooms to customers for the purpose of viewing videocassettes had violated the copyright owner's public performance rights).
44. See Sound Exchange, <http://www.soundexchange.com>.
  45. See 17 U.S.C. § 114.
  46. This category includes analog-only transmissions, traditional AM and FM broadcasts, and others. See June M. Besek, *Music on the Internet*, 871 PLI/PAT 239, 247 (Mar. 2006).
  47. Including subscription digital transmissions and certain nonsubscription digital transmissions. See *id.* at 248.
  48. Interactive digital audio services (on-demand streaming) fall into this category. See *id.*
  49. 536 F.3d 121 (2d Cir. 2008); see Seth Gilbert, *Cablevision Wins Remote Storage DVR Case—Consumers Win Too*, Seeking Alpha, Aug. 06, 2008, <http://seekingalpha.com/article/89425-cablevision-wins-remote-storage-dvr-case-consumers-win-too>.
  50. *Id.* at 131 (holding that remote digital video recorders hosted on the cable company's servers were not "sufficiently distinguishable from a VCR" to find the company liable).
  51. See Gilbert, *supra* note 51.
  52. ASCAP, the first U.S. PRO, was founded on Feb. 13, 1914. See ASCAP, History, <http://www.ascap.com/about/history/>.
  53. Michael J. Perlstein, *Music Publishing*, 930 PLI/PAT 1367, 1389 (2008).
  54. Carlos Ruiz de la Torre, *Towards the Digital Music Distribution Age: Business Model Adjustments & Legislative Proposals to Improve Legal Downloading Services & Counter Piracy*, 8 VAND. J. ENT. & TECH. L. 503, 508 (2006).
  55. Payments for each musical work are typically determined by extrapolating from survey data. With transmissions over digital networks, the task of accurately allocating money based on frequency of performance becomes much simpler, because of the ability to record data for each transmission. See Fact Sheet: SoundExchange, <http://www.futureofmusic.org/articles/SXfactsheet.cfm>. Other services track other Internet transmissions activity. See, e.g., Big Champagne Media Measurement, <http://www.bigchampagne.com/>.
  56. See Oman & Ryan, *supra* note 29.
  57. *Reforming Section 115 of the Copyright Act for the Digital Age: Hearing before the House Comm. on the Judiciary, Subcomm. on Courts, the Internet and Intellectual Property*, 110th Cong. (2007) (statement of Marybeth Peters, Register of Copyrights, U.S. Copyright Office), available at <http://www.copyright.gov/docs/regstat032207-1.html>
  58. *United States v. Am. Soc'y of Composers, Authors & Publishers*, 485 F. Supp. 2d 438, 445 (S.D.N.Y. 2007) (for a public performance, the music must be transmitted in a manner designed for contemporaneous perception).
  59. *Id.* at 442 (holding that an audio transmission is a public performance as long as it is "the real-time (or near real-time) playing of the song . . . [where] a constant link is maintained between the server [streaming the song] and the client until the playing of the song is completed, at which replay of the song is not possible without streaming it again").
  60. If a transmission is considered a "download" rather than "stream," then the copyright owner's exclusive right of reproduction under 17 U.S.C. § 106(1) is at issue. To clear the rights for a reproduction of a sound recording, a user must obtain a mechanical license from the publisher (usually through The Harry Fox Agency, Inc. (HFA)), and also a license from the record company for the recording. See HFA, FAQ, <http://www.harryfox.com/public/FAQ.jsp>.
  61. See *Digital Music Licensing and Section 115 of the Copyright Act: Hearing before the Subcommittee on Courts, the Internet, and Intellectual Property of the H. Comm. on the Judiciary*, 109th Cong., 2d Sess., at 21–26 (Mar. 8, 2005) (testimony of Jonathan Potter, Executive Director, Digital Media Association).
  62. Oman & Ryan, *supra* note 29.
  63. ELECTRONIC FRONTIER FOUNDATION (EFF), A BETTER WAY FORWARD: VOLUNTARY COLLECTIVE LICENSING OF MUSIC FILE SHARING (Feb. 2004), available at [http://w2.eff.org/share/collective\\_lic\\_wp.pdf](http://w2.eff.org/share/collective_lic_wp.pdf).
  64. See Posting of Patrick Ross to the Copyright Alliance Blog, <http://blog.copyrightalliance.org/2008/12/critiquing-copyright-canards-part-three-of-five/> (Dec. 2, 2008, 06:01 PM).
  65. See Jeff Leeds, *Nine Inch Nails Fashions Innovative Web Pricing Plan*, N.Y. TIMES, Mar. 4, 2008, at E2 (describing the tiered offering from the band which included: a CD package for \$10; a \$75 version which adds a DVD and multi-track data files for fans to remix; and a \$300 deluxe version, limited to 2,500 copies, all signed by Trent Reznor, including CDs, vinyl and additional material).
  66. NICHOLAS GEORGE & NICHOLAS BELL, PRICewaterHOUSE COOPERS, ON MEDIA RECORDED MUSIC—WHO BENEFITS FROM DIGITAL? 3, 4 (2008), available at [http://www.pwc.co.uk/pdf/On\\_media\\_-\\_Apr1\\_08.pdf](http://www.pwc.co.uk/pdf/On_media_-_Apr1_08.pdf) ("Online marketing is allowing independent labels and emerging artists to gain publicity and success without major A&R investment").
  67. See Ian Rogers speaking at GRAMMY Northwest MusicTech Summit Keynote, <http://topspinmedia.com/2008/11/grammy-northwest-musictech-summit-keynote/>.
  68. Sara K. Stadler, *Performance Values*, 83 NOTRE DAME L. REV. 697, 738 (2008).
  69. *Id.* at 739–40.
  70. *Id.* at 742.
  71. It follows that record labels would diversify their business, signing more "360 deals" which allow the labels to share in the profits from merchandising, touring, and publishing in addition to sales of recorded music. See *supra* note 16 and accompanying text.

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# An Argument for the Performance Rights Act of 2009

By Aaron Morgan

The 1976 Copyright Act<sup>1</sup> distinguishes what is—and is not—included in the exclusive rights held by musicians.<sup>2</sup> Likewise, it specifies which monetary benefits may accrue to the copyright holder due to the value society has placed upon his or her work. Market participants, such as the various students in lawsuits involving the Recording Industry Association of America (RIAA),<sup>3</sup> believe that free use of musicians' works and sound recordings (or file-sharing in many cases), is harmless or appropriate.<sup>4</sup> The recording industry supports the view that everyone using the musicians' works should pay all parties involved in their creation and distribution.<sup>5</sup>

As the balance shifts as to the scope of copyright protection, including argument over the scope of protection under the Digital Millennium Copyright Act (DMCA), it is imperative that Congress afford more protection to public performance rights in sound recordings. This unmet need becomes more glaring as use of digital media grows exponentially. One may access digital recordings broader than the limited "top-40" songs provided by an analog radio program. A user may choose among a multitude of webcasters, downloads, legal file-sharing programs and music-video combinations. As society adapts to new technology, the choices diversify and become more user-friendly, replacing individual needs to purchase a particular song.<sup>6</sup>

The reason for the immediate need for change of the old policy between the broadcasters and the record labels and their artists,<sup>7</sup> pushed forward by former Congresses,<sup>8</sup> is the move from a centralized system of give-and-take between the record label (which wants its music played), and the broadcaster (which has the only means to play it),<sup>9</sup> to a more option-friendly atmosphere provided by the Internet. In past decades, broadcasters held the most efficacious means of advertising an artist's sound recording to the public, and held one of only a handful of the options available.<sup>10</sup> Now, virtually anyone with a computer may set up an online "radio," playing music of his or her choice. Likewise, an analog station has the capability to not only broadcast through analog for 100 miles or so, but to play the same music worldwide by streaming online.<sup>11</sup> Streaming music has no limit on its reach, is individualized to one's particular address rather than the public as a whole, and has the capability to reach in all directions simultaneously.

There is a tug-of-war in the music industry among certain organizations, societies, broadcasters, webcasters, and record labels. The labels want to receive royalties for their sound recordings.<sup>12</sup> The Harry Fox Agency, Inc. (HFA)<sup>13</sup> wants to continue receiving mechanical rights for Digital Audio Transmissions (defined as Digital Phonore-

cord Deliveries (DPD)),<sup>14</sup> as well as for buffering activity that temporarily saves the streaming song while it plays. Performance-rights societies want to ensure that the musical work owner is receiving his or her royalties from online public performance.

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*"The recording industry supports the view that everyone using the musicians' works should pay all parties involved in their creation and distribution."*

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Many arguments have been made regarding why performers should—and should not—receive copyright protection for public performance of their sound recordings, as well as subsequent payment of royalties due to the enforcement of the copyright.<sup>15</sup> On one end of the spectrum are the broadcasters, who do not want public performance rights in sound recordings granted as a general protection. On the other end are the artists who are disregarded by Congress due to the supposed symbiotic relationship between the broadcaster and sound recording copyright owner. This is possibly due to the perception that artists are compensated sufficiently, and this income is directly related to radio play.<sup>16</sup>

Congress failed to recognize two important realities needed to update its assumptions. The first reality is that many sound recording copyright holders<sup>17</sup> are neither famous nor wealthy.<sup>18</sup> There is little doubt that most people know who the Rolling Stones and Aerosmith are, and there is no doubt that they make a portion of their incomes from album sales. Yet what about the musician who is on a special edition album, such as a live performance? There is no reason why the artist who is a road guitarist should not be entitled to royalties on a public performance of his or her share in the sound recording.<sup>19</sup>

The second reality is the aforementioned move from a centralized system of the broadcaster controlling most of the attention artists receive, to a network of blogs, Web sites of magazines, social networks, and Webcasters. The symbiotic relationship that once was a strong argument became a distant second in terms of artists' marketing mechanisms.

Although labels receive royalties for DPDs,<sup>20</sup> they should also continue to receive royalties for streaming music play under the Copyright Act.<sup>21</sup> This right should continue to include both interactive<sup>22</sup> and all forms of non-interactive Web sites, and the law should be expanded to include analog radio stations.<sup>23</sup> For the enjoyment of

the sound recording as publicly performed on a Web site, the artist should be compensated for his or her work.<sup>24</sup>

## Background

### Copyright

A copyright exists upon creation of an original work of authorship once placed in a tangible medium of expression.<sup>25</sup> Copyright remedies<sup>26</sup> arise from federal law and are offered by registering with the Copyright office.<sup>27</sup> These remedies include statutory damages and injunctions.<sup>28</sup> Without such remedies, would-be infringers would not be deterred other than for moral reasons.<sup>29</sup>

Federal copyright law<sup>30</sup> was created through the Constitution,<sup>31</sup> which states, “[t]o promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Rights to their respective Writings and Discoveries[.]”<sup>32</sup> Initially, the United States enacted a law patterned after the English Statute of Anne.<sup>33</sup> This predecessor was termed the 1790 Copyright Act. The 1790 Act has been revised throughout the years<sup>34</sup> to the present Act.<sup>35</sup>

### Copyright Created in Music

There exist two forms of copyright in the musical business with which this article is concerned: the copyright in the musical work and the copyright in the sound recording, which are owned by two separate entities. The copyright in the musical work is owned by the creator, and the sound recording is owned by a record label and its artist.<sup>36</sup> This separates the aural—the sound recording—from the dramatic, literary, or musical work in the completed digital media one listens to on the radio or through the Internet.<sup>37</sup>

For years there was only public performance copyright protection for musical works.<sup>38</sup> Musical work, as defined by the Copyright Act, does not include sound recordings,<sup>39</sup> and for a time only musical works received public performance protection.<sup>40</sup> Therefore, when songs were played on the radio the musical work owner would receive a royalty for the public performance, but the actual artist singing the composition, if different from the musical work copyright owner, would not.

Congress began to resolve the lack of royalties to the sound recording owner by giving the owner a separate category of a public performance right in the digital public performance of the sound recording.<sup>41</sup> Previously, the artist was entitled to royalties in the sale of his or her album.<sup>42</sup> Thus, if a consumer purchased the album, the artist would retain the royalties for that album through his or her label.<sup>43</sup>

This concept has been updated to include several statutory or negotiated royalties for digital public performance of sound recordings available to the sound recording copyright holder.<sup>44</sup> Contractually, an artist may

enforce his or her copyright on certain forms of Internet sites, including “interactive service”<sup>45</sup> and certain “subscription”<sup>46</sup> transmissions, while others provide statutory royalties. This should be extended to all public performances of sound recordings, which is the intent of the Performance Rights Act of 2009.<sup>47</sup>

### The Main Players in the Music Business<sup>48</sup>

It is important to understand the players involved in the legislative process and their impact on the music industry.<sup>49</sup> There are several key players involved in the future of a copyright in public performances of sound recordings. These include, but are not limited to, HFA, the Performance Rights Organizations (PROs), Webcasters, and record labels. It is important to know the identity, representations, and goals of these entities in order to understand why they are arguing for their particular positions on the several copyright sections.<sup>50</sup>

#### The Harry Fox Agency, Inc.

HFA, a subsidiary of the National Music Publishers Association, Inc. (NMPA), is an agency that issues a variation of mechanical licenses on behalf of publishers,<sup>51</sup> collects royalties on the publishers’ behalf,<sup>52</sup> and distributes such royalties to the publishers after retaining its commission.<sup>53</sup> The licenses are freely negotiated and are contractual in nature, rather than statutory. The statutory rates for mechanical royalties have been alluded to as “ghosts in the attic” by some commentators.<sup>54</sup>

#### Performance Rights Organizations

The PROs include the American Society of Composers, Authors, and Publishers (ASCAP), Broadcast Music Incorporated (BMI), SESAC, and the new SoundExchange.<sup>55</sup> The publishers contract with the organizations to license the rights to use their music to restaurants, bars, nightclubs, hotels, gas stations, television and radio programs, and other media.<sup>56</sup> The PROs work exclusively with copyrights in musical works and the rights granted to the holder of the copyrights. SoundExchange handles the public performance rights for sound recordings and the royalties involved.<sup>57</sup>

These societies are important to distinguish because the former three, which deal with all royalty payments other than digital performance royalties, may be concerned that another form of royalties may decrease the pool of radio stations playing music owned by copyright owners they represent. SoundExchange collects only the digital performance royalties for sound recording copyright holders and holds an interest in continued royalties for its artists.<sup>58</sup>

#### Webcasters

Music Webcasters are divided into two types of services and several types of transmissions. The services consist of the aforementioned interactive services,<sup>59</sup> and

those that are not. The Webcasters that are not interactive services may be voluntary subscription services, compulsory subscription services, or non-subscription services.

Non-subscription services have been most attentive to new legislation, as they are the Webcasters which include the streaming AM/FM broadcasters. One does not necessarily have to subscribe to a Web site that offers streaming broadcasts with its AM/FM analog station. Such Web sites are easily navigated and, upon loading into a music player program, immediately begin to stream and play music concurrent with what is playing on the radio. No extra login would be required and no choice of music would be offered, other than the type the station normally plays.

Most other types of Internet stations are relatively easy to define. Either they are interactive services, subscription services or exempt.<sup>60</sup>

### Broadcasters

As described above, broadcasters exist within the Webcasters.<sup>61</sup> Webcasters may be any form of services offering music. The diversity of Webcasters ranges from Pandora,<sup>62</sup> which offers randomly played music within a particular musical genre or particular artists' genre,<sup>63</sup> to a Web site that offers choices of particular artists and or songs. Webcasters can also range from non-profit companies<sup>64</sup> classified as a 501(c)(3) under the Internal Revenue Code to streaming broadcasters from analog stations. Therefore, all broadcasters are Webcasters, but not all Webcasters are broadcasters.

Broadcasters play music subject to public performance royalties for musical works through analog stations. They have tried in the past to enjoy the same liberal rights given to them by Congresses to not offer the same protection to copyright holders in the public performance of sound recordings.

While broadcasters otherwise would receive tangible benefits such as advertising revenue and added traffic to their Web sites, they would also receive intangible, and speculative, benefits such as future traffic and possible sales of merchandise. There is a whole host of possibilities of downstream, speculative benefits available to streaming broadcasters that must be taken into consideration. Likewise, when a Web site is advertised on its analog station, the broadcaster benefits from having its listeners drawn to its streaming Webcast.

### Record Labels and Artists

The central group to this discussion includes the labels and artists. Without this group, there would be no discussion. These entities are actually a team in the music field, although some believe otherwise.<sup>65</sup> Both the labels and artists are concerned with seeking greater returns on their products and in reaping the benefits from their cre-

ations. Underlying all of this is the benefit society gains from new songs.

In any event, both labels and artists have a very large incentive to see the Performance Rights Act of 2009 through. Labels will finally enjoy the long-awaited royalties for play of their music on analog stations along with the royalties for digital play, and artists will have an increased incentive to create new songs.

### Licenses Within Particular Fields

There are included in the music field two forms of licenses between an individual wanting to publicly perform music and a copyright owner. The first is a voluntary license. This is a freely negotiated license between the sound recording copyright owner, which is usually the record label, and the person wishing to publicly perform it. It applies with interactive services and non-interactive subscription services.<sup>66</sup> A record label may either dictate whatever amount it wants from the potential licensee or outright refuse to grant a license.<sup>67</sup> This has obvious benefits to the sound recording owners. On the other hand, it could cause problems for those who want to use a sound recording and cannot find the owner, or who cannot afford the fee. Likewise, either the sound recording copyright holder or the person seeking a license for the sound recording may be bogged down with requests or negotiations.<sup>68</sup>

Important to note is the statutory limitation for granting licenses to interactive services. These limitations are set at 12 months generally and 24 months for an interactive service licensee that holds 1000 or fewer sound recording copyrights.<sup>69</sup> The statute offers an exception to these limitations, stating that they do not apply if licenses are granted to

at least [five] different interactive services and each license is for a minimum of 10 percent of the copyrighted sound recordings owned by the licensor that have been licensed to interactive services, but in no event less than 50 sound recordings; or the exclusive license is granted to perform publicly up to 45 seconds of a sound recording and the sole purpose of the performance is to promote the distribution or performance of that sound recording.<sup>70</sup>

The second is a statutory blanket license. This form of license was created by Congress "to balance the exclusive rights of copyright owners with the concern of public access to protected works."<sup>71</sup> In essence, the user pays a set fee to the copyright owner for the compulsory use of the latter's creation.<sup>72</sup> In the music industry, this rate is set by the Copyright Royalty Board,<sup>73</sup> given authority by statute.<sup>74</sup>

It is relatively easy to obtain a license for a public performance of a musical work on the Internet. These licenses are handled by the PROs as individual or blanket licenses, and HFA handles DPDs. As will be discussed later, § 114 of the Copyright Act<sup>75</sup> defines the requirements for one who wishes to seek a compulsory license from a sound recording copyright owner.

## Current Law

The current law is derived directly from Congress's decisions over the past 15 years to offer copyright protection for the public performance of sound recordings. In 1995 Congress passed the Digital Performance Right in Sound Recordings Act (DPRA), then modified it in 1998 with the DMCA. The 1995 DPRA gave a limited public performance right to the copyright holder of a sound recording. It also included a tiered system as to who needed to obtain statutory licenses, voluntary licenses or no licenses at all. This left several exemptions that were ultimately closed by the DMCA.<sup>76</sup>

## DMCA

The DMCA was enacted by Congress to implement treaty obligations under the World Intellectual Property Organization (WIPO) treaties, in an attempt to modernize the United States' copyright laws.<sup>77</sup> The decision to implement the WIPO treaties was made "to facilitate the development of electronic commerce in the digital age."<sup>78</sup>

The DMCA, *inter alia*, amended §§ 114 and 115 of the Copyright Act and enhanced the DPRA.<sup>79</sup> The amendments to the DPRA expanded the statutory licensing category while reducing the exemptions outside of the sound recording copyright owner's control. The "eligible nonsubscription transmission," which was previously exempt under the DPRA, was made to be subject to statutory licensing under the DMCA.

Under the DMCA, as with the DPRA, there are several requirements a person must follow in order to receive a statutory license under § 114. One must adhere to the sound recording performance complement;<sup>80</sup> the potential licensee must also not advertise an advance schedule of songs it will play.<sup>81</sup> Likewise, the potential compulsory licensee must comply with the requirements of § 114(d)(2).<sup>82</sup>

## *Bonneville International Corporation v. Peters*

*Bonneville International Corporation v. Peters*<sup>83</sup> set the stage for the Performance Rights Act of 2009. The Third Circuit decided that the Register of Copyrights was correct in a rule determination regarding analog broadcasters and their exemption status concerning simultaneous Webcasting over the Internet. The Register of Copyrights had determined that there was no exemption for analog broadcasters to simultaneously Webcast, thereby making all Webcasters, including the analog stations that streamed online, subject to royalties.<sup>84</sup>

The court analyzed the term "broadcast transmission"<sup>85</sup> to determine what Congress meant when drafting the DMCA. The court looked to the definitions to ask<sup>86</sup> what Congress meant by terrestrial, including whether the "station" was meant to be the actual station or the entity forming it, and also looked to what was meant by "licensed . . . by the [FCC]."<sup>87</sup> The court began with giving "terrestrial" the meaning of earthbound, leaving open the argument of physical station versus entity. Eventually, after looking at other specific terms in the same section of the statute,<sup>88</sup> analyzing the term "licensed,"<sup>89</sup> looking at the Federal Communications Act for its definitions, and looking at the legislative intent of the DPRA (and later the tightening of exemptions by the DMCA),<sup>90</sup> the court determined that analog stations were not exempt and were thus subject to public performance copyrights in sound recordings.

## Unauthorized Uses of U.S. Copyright-Protected Sound Recordings Worldwide

Although this article does not directly focus on global copyright issues, it is worth a short discussion. As stated earlier, artists no longer rely heavily on broadcasters to advertise their music. The Internet can be both beneficial or detrimental in this regard.

International trafficking of pirated copies of sound recordings is excessive. Not only are peer-to-peer networks in the United States an issue, but worldwide networks are a serious concern. Although laws cannot be passed in the United States that will directly control others outside of our borders, the United States can take two actions. First, it can provide an example for the countries that do not have a public performance copyright in sound recordings. Second, public performance legislation can compensate artists for the revenue created and received from Web site hits around the world due to exploitation by U.S.-based companies. Not only do broadcasters make money on advertising, but as noted earlier, they make money by many other means, including international sales. Offering a general copyright in public performances of sound recordings would make up for the misperception that has been controlling Congress for the past 15 years that the give-and-take relationship between the labels and analog broadcasters still exists.

## Congress's Mistake by Not Passing the Performance Rights Act of 2009

By not passing the Performance Rights Act of 2009, Congress will have made a great error in decision making, based on the old notion of a symbiotic relationship between the broadcasters and the record labels.<sup>91</sup> That symbiotic relationship of old is no more. The "fee" that certain members of Congress call the rightfully earned royalties of the sound recording copyright holder is not a fee at all, but rather proper payment for use of works that create revenue for radio stations. Congress fails to realize



that several entertainers have careers as back-ups, and are not made famous by the broadcasters. Likewise, those who do become famous do not necessarily owe such fame to the broadcasters; rather, they tour and advertise in record stores, over the Internet, via word of mouth, and through trade magazines.<sup>92</sup>

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*"The once central part of an artist's advertising machine is now ancillary to the Internet."*

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Broadcasters do not appear to realize that this bill, when passed, could benefit them as well. As witnessed in *Bonneville*, broadcasters are subject to the same royalty payments as Webcasters who do not run AM/FM analog stations. Thus, they are subject to digital public performance of sound recording royalties. As the years progress, analog stations will be phased out, leaving only digital mediums. By passing this bill, record labels, PROs, broadcasters, and HFA all have interests in retaining analog stations.

## Conclusion

Analog broadcasters no longer play a pivotal role in artists' careers as they once did. The symbiotic relationship that was well argued has become parasitic with the broadcaster as the parasite. The once central part of an artist's advertising machine is now ancillary to the Internet. Artists are losing sales both within and outside the United States, furthering the necessity for these payments. Congress needs to rethink its past mistakes and pass the Performance Rights Act of 2009 in the current session. Artists should be paid for their work.

## Endnotes

1. 17 U.S.C. §§ 101 et seq.
2. 17 U.S.C. § 106.
3. The RIAA has prosecuted various college students for copyright infringement due to file-sharing music. [http://www.usatoday.com/tech/news/2004-03-23-riaa-suits\\_x.htm](http://www.usatoday.com/tech/news/2004-03-23-riaa-suits_x.htm) (last visited April 29, 2009).
4. People in the ages from 15 to 24 have "historically accounted for about a third of all record purchases." Julian Dibbel, *The New Face of Music Piracy*, ROLLING STONE, June 8, 2000, at 21. "[C]opyright piracy is rampant . . . especially among teenagers and college students," Peter Yu, *The Copyright Divide*, 25 Card. L. Rev. 331, 444 (2003).
5. For instance RIAA. See *Metallica v. Napster, Inc.*, Nos. C 00-4068 MHP, MDL C 00-1369 MHP, and C 00-3997 MHP, 2001 WL 777005 (N.D. Cal. March 5, 2001) (bringing suit against Napster along with such other big names as Elton John).
6. Arguments may be made in favor of quality vis-à-vis digital media. Specifically, if musicians created quality work people would purchase the music rather than pirate it. This article sets aside this argument due to its speculative nature, focusing on the clash of ideologies held in the music industry and not as much on marketing mechanisms and social action. As well, we must keep in mind that digital media is replacing what was once exclusively

- tangible goods that fell into a relatively similar model as all medium before, e.g., 8-tracks, cassettes and compact discs.
7. Record labels and artists will be interchanged in this paper unless specifically singled out into separate groups.
  8. See *Performance Royalty: Hearings on S. 1111 Before the Subcomm. on Patents, Trademarks, and Copyright of the Senate Comm. on the Judiciary*, 94th Cong., 1st Sess. 1-4, at 29 (1975) (note this was integrated into S. 22 of the same year) [hereinafter cited as *Subcommittee on S. 1111*]. Although Congress's actions in the music industry are predicated on the arguments and lobbying efforts of the interested group in a given discussion.
  9. In the past, performers were only compensated through their negotiated royalties with their label. *Moore v. AFTRA*, 216 F.3d 1236 (2000).
  10. The only other feasible alternative options an artist had was to play concerts and pass out vinyl records, and thus word of mouth.
  11. Streaming for this article will mean the transmission of a signal to a particular Web address.
  12. In its current form, 17 U.S.C. § 106(6) purports to do just this.
  13. <http://www.harryfox.com/index.jsp> (last visited April 29, 2009).
  14. 17 U.S.C. § 115(d) (defining DPD as "each individual delivery of a phonorecord by digital transmission of a sound recording which results in a specifically identifiable reproduction by or for any transmission recipient of a phonorecord of that sound recording, regardless of whether the digital transmission is also a public performance of the sound recording or any nondramatic musical work embodied therein. A *digital phonorecord delivery does not result from a real-time, non-interactive subscription transmission of a sound recording where no reproduction of the sound recording or the musical work embodied therein is made from the inception of the transmission through to its receipt by the transmission recipient in order to make the sound recording audible.*") (emphasis added); see 3 Patry on Copyright § 8.23 (2009) (clarifying the distinction between a performance and a distribution, stating the difference "should be drawn by reference to the type of transmission involved: if the transmission delivers a copy of a work to a consumer in non-real time, it is a distribution. If streaming or other real-time conduct is involved, it is a performance."); see also *U.S. v. American Society of Composers, Authors and Publishers*, 2007 WL 1346568 (S.D.N.Y. 2007) (Conner, J.) (stating that DPDs did not implicate the public performance but did implicate the reproduction); *Accord 4 Patry on Copyright § 14.21* (citing *Agee v. Paramount Communications, Inc.*, 59 F.3d 317, 325-326 (2d Cir. 1995), stating transmitting sound recording is not a distribution. Distribution requires a fixed sound recording.)).
  15. This argument dates back years. See Subcommittee on S. 1111.
  16. Subcommittee on S.1111, at 89-90, 92.
  17. Any contributor to the creation of a sound recording, so long as it is material, is generally an equal owner to the copyright in the sound recording.
  18. Subcommittee on S. 1111, at 29 (quoting Jack Golodner, Executive Secretary, Council for Professional Employees, AFL-CIO).
  19. Soundexchange collects royalties for digital performances of sound recordings. The distribution is 50% to the sound recording copyright owner, 45% to the featured artist and 5% to the non-featured musicians and vocalists. Therefore, the larger the pool of sound recording royalties paid into Soundexchange, the more royalties non-featured artists will receive. <http://www.soundexchange.com> (last visited April 29, 2009).
  20. 4 Patry on Copyright § 14:87 (stating "[a]s a 'narrowly crafted response' to the threat of displacement of record sales through subscription and interactive services, Congress simultaneously recognized that the 'sale of many sound recordings and the careers of many performers have benefited considerably from airplay and other promotional activities provided by both noncommercial and advertiser-supported, free-over-the-air broadcasting'").

21. 17 U.S.C. §§ 106(6), 114 (giving the copyright holder in a sound recording a public performance right, which offers a right to royalties, in a digital audio transmission performance).
22. 17 U.S.C. § 114 (j)(7). (defined as an “interactive service,” which is one that, generally, allows for a special creation for the recipient or a request. This is the main form of Web site Congress was concerned with replacing record sales.)
23. The current bicameral, bipartisan bill is H.R. 848. IH and S. 379.IS. This bill extends the copyright protection in the public performance of a sound recording to analog stations.
24. Most artists work their whole lives to make a reasonable amount of money for their creations. These creations are theirs and upon which a value is placed by society. Broadcasters want to use these creations to make money because of the value the sound recordings encapsulate, while not compensating the sound recording copyright holders for their creative work.
25. 17 U.S.C. § 102(a) (1978).
26. 17 U.S.C. §§ 504 et seq. 17 U.S.C. § 1202 for limitations and causes of action under the DMCA. The DMCA would be applicable here if the party did not properly follow the requirement for “copyright management information.” See also 17 U.S.C. §§ 1203–1204 for damages offered under the DMCA.
27. <http://www.copyright.gov> (last visited April 29, 2009).
28. 17 U.S.C. § 502.
29. Calvin Massey, *The Constitution in a Postmodern Age*, 64 WASH. & LEE L. REV. 165, 173 (2007). In his discussion on postmodernism and how morality depends on a given situation, Massey describes a poll stating, *inter alia*, that “86 [percent] of American teenagers believe that music piracy . . . either is morally acceptable or is not even a moral issue.” See Lori A. Morea, *The Future of Music in a Digital Age: The Ongoing Conflict Between Copyright Law and Peer-to-Peer Technology*, 28 CAMPBELL L. REV. 195, 228 (2006). In her discussion, Morea states that “[m]any Americans do not believe that music piracy is morally wrong and many have no qualms, despite the efforts of the government and certain interest groups, about participating in such unlawful behavior. Polls conducted in 2000 suggest that almost half of all contributors believed it was morally acceptable to download music from the Internet. Since similar statistics show that a large number of people find nothing significantly wrong with copyright infringement over peer-to-peer networks, this might suggest infringement should not be criminalized.” Here Morea is commenting on Professor Steven Penney’s proposition that “criminal law should not be used for things most people reckon not really wrong or, if wrong, merely trivial.” STEVEN PENNEY, WHAT IS A CRIME? DEFINING CRIMINAL CONDUCT IN CONTEMPORARY SOCIETY (Law Comm’n of Canada ed., 2004), at 23.
30. 17 U.S.C. §§ 101 et seq.
31. Art. 1, § 8, Cl. 8; See 2 Patry on Copyright § 3:5-3:8.
32. Although important, state copyright common law is not necessary for this discussion.
33. 1 Patry on Copyright § 1:1; see also <http://www.copyrighthistory.com/anne.html> (last visited April 9, 2009).
34. The 1790 Act was amended several times before the 1909 Copyright Act was passed. The 1909 Act was amended several times before the 1976 Act was passed.
35. 17 U.S.C. §§ 101 et seq. This includes the large revisions made by the DPRA and the DMCA, including “[a] significant expansion of the section 114 and 115 compulsory licenses.” See 1 Patry § 1:1.
36. 1 Patry on Copyright § 3:160.
37. See *id.*
38. 17 U.S.C. § 102(a)(2). Musical works are works of authorship that include accompanying words.
39. *Palladium Music, Inc. v. EatSleepMusic, Inc.*, 398 F.3d 1193, n3 (Okla. 2005). “Sound recordings and their underlying musical compositions are separate works with their own distinct copyrights.”
40. 17 U.S.C. § 106(4).
41. 17 U.S.C. § 106(6).
42. These royalties are known as Mechanical Licenses and are contractually set between the record label and the artist. See United States Copyright Royalty Judges, Docket No. 2006-3 CRB DPRA; Final Determination of Rates and Terms, at 13 *et seq.* (summarizing history of compulsory licenses under 17 U.S.C. § 115).
43. The artists of the past did not always receive their royalties due or did not understand the payouts that occurred before they were paid. See *Atlantic Records: The House That Ahmet Built* (PBS television broadcast, May 7, 2007).  
17 U.S.C. §§ 106(6), 112 and 114. Ruth Brown saying, “[I] heard my music being played on the air and the announcer [was] giving all these wonderful accolades to my contributions to the music. . . . Well, that’s all good and true, but where’s the check?”
44. 17 U.S.C. §§ 106(6), 112 and 114.
45. 17 U.S.C. § 114(j)(7). An interactive site is “one that enables a member of the public to receive a transmission of a program *specially created* for the recipient, or on request, a transmission of a *particular* sound recording, whether or not as part of a program, which is selected by or on behalf of the recipient. The ability of individuals to request that *particular* sound recordings be performed for reception by the public at large, or in the case of a subscription service, by all subscribers of the service, does not make a service interactive, if the programming on each channel of the service does not substantially consist of sound recordings that are performed within [one] hour of the request or at a time designated by either the transmitting entity or the individual making such request. If an entity offers both interactive and noninteractive services (either concurrently or at different times), the noninteractive component shall not be treated as part of an interactive service.” (emphasis added).
46. 17 U.S.C. § 114(j)(14)—“[A] transmission that is controlled and limited to particular recipients, and for which consideration is required to be paid or otherwise given by or on behalf of the recipient to receive the transmission or a package of transmissions including the transmission.” See *Bonneville v. Peters*, 347 F.3d 485, n12 (“A ‘subscription’ transmission is a transmission that is controlled and limited to particular recipients, and for which consideration is required to be paid or otherwise given by or on behalf of the recipient to receive the transmission or a package of transmissions including the transmission.”).
47. <http://leahy.senate.gov/press/200902/020409a.html#section> (last visited April 29, 2009).
48. The main players are described as such because of their impact on Congress and their persistence throughout the Copyright Act’s history.
49. See *Performance Royalty: Hearings on S. 1111 Before the Subcomm. on Patents, Trademarks, and Copyright of the Senate Comm. on the Judiciary*, 94th Cong., 1–4 (1975) (showing pressure by the then oligopolies of Broadcasters); see also 53 Case W. Res. L. Rev. 673 (discussing the intricacies of the Copyright Act and the players involved); Allen Edward Molnar, Comment, *Performance Royalties and Copyright: A Question of “Sound” Policy*, 8 Seton Hall L. Rev. 678, 688–93 (1978); William H. O’Dowd, Note, *The Need for a Public Performance Right in Sound Recordings*, 31 Harv. J. Legis. 249, 253–54 (1994).
50. 17 U.S.C. §§ 106(6), 114(j)(6) and 115(d)(2).
51. See <http://www.nmpa.org/music101/currentstate.asp> (last visited April 29, 2009). A publisher controls a catalog of musical works by various artists and usually receives 50% of the “publisher share” of income from mechanical and synchronization royalties. For

- performance income for the public performance of a musical work, the performance rights societies collect the royalties, of which the performer will usually retain 25%.
52. DONALD S. PASSMAN, *ALL YOU NEED TO KNOW ABOUT THE MUSIC BUSINESS* 213 (6th ed., Simon and Schuster 2006). HFA charges a percentage of gross monies collected, which changes from time to time. The biggest factor in this change, as mentioned in this article, is the statutory percentages set by the Copyright Royalty Board. *See infra* note 55 and accompanying text.
  53. 966 PLI/Pat 305. Most U.S. publishers use HFA. *See Note, A New Spin on Music Sampling: A Case for Fair Pay*, 105 HARV. L. REV. 726, n.26 (1992).
  54. United States Copyright Royalty Judges; Docket No. 2006-3 CRB DPRA; Final Determination of Rates and Terms at 13 (stating that the ghosts affected all below them, i.e., everyone knew they were there, so the prices were influenced by the statutory rates).
  55. “Designated as the administrative entity for subscription services’ statutory license fees.” SoundExchange handles, among other things, the collection or royalties for statutory licenses; collects and processes all data associated with the performance of the sound recordings; allocates royalties for the performance of the sound recording based on all the data collected and processed; and makes distributions to the respective individuals or entities. <http://www.soundexchange.com> (last visited April 29, 2009); 17 U.S.C. § 114(g) (2), *inter alia*, controls the distribution of receipts from licensing.
  56. Joshua Keesan, *Let It Be? The Challenges of Using Old Definitions for Online Music Practices*, 23 Berkeley Technology Law Journal 353, 356 (2008); 17 U.S.C. § 114(d)(1)(C)(iv) (stating storecasts and “business establishments” are exempt from the copyright in digital public performance of sound recordings, including retail stores, restaurants and offices, so long as they adhere to the sound recording performance complement). 17 U.S.C. § 114(j)(13); *see infra* note 65 and accompanying text. The fact that many sources of royalties for a musical work copyright holder are not available for the limited public performance copyright for digital sound recording only strengthens the argument that there should be a blanket license for public performance of sound recordings regarding analog and digital play, in that the digital public performance of sound recordings is already exempted in a majority of areas by the statute.
  57. *Id.* *See* <http://www.soundexchange.com> (last visited April 29, 2009).
  58. SoundExchange has a positive view about the legislation providing a copyright in the public performance of sound recordings. <http://www.soundexchange.com>, located in the news section for Feb. 5, 2009.
  59. 17 U.S.C. § 114(j)(7); *see supra* note 43 and accompanying text.
  60. 17 U.S.C. § 114(d)(1)(B)(iv); 47 U.S.C. § 396(k) (clarifying public broadcasting).
  61. Radio stations that transmit to the general public via analog signals and also stream their music to individuals through a Web site.
  62. <http://www.pandora.com> (last visited April 29, 2009).
  63. Abiding by the Copyright Act’s restriction called a Sound Recording Performance Complement, which is codified in 17 U.S.C. § 114(j)(13). This section limits use of a song to, within a three-hour time frame, no more than “three sound recordings from one phonorecord that has been distributed under title 17 U.S.C. § 115; or four sound recordings by the same featured recording artist or four sound recordings from a set or compilation (including the limitation that no more than three selections out of the compilation are transmitted consecutively). A transmission in excess of these limits qualifies as a sound recording performance complement if the programming of *multiple phonorecords* was not willfully intended to avoid the limitations above” (emphasis added for clarity). Therefore, if a broadcaster plays several songs of the same artist by accident through several records, possibly several compilations, unless willful the actor is not held liable under 17 U.S.C. § 114.
  64. 17 U.S.C. § 114(f)(5)(A) (clarifying that a “receiving agent may enter into agreements for the reproduction and performance of sound recordings under section 112(e) and [114(f)(5)(A)] by any [one] or more commercial webcasters or noncommercial webcasters for a period of not more than 11 years. . . .” This contract is voluntary and may be freely negotiated, except that it is subject to determination by the Copyright Royalty Judges and the Board.); 17 U.S.C. § 114(f)(5)(E) (defining “noncommercial webcaster”).
  65. Matthew Reynolds, *Why Music Should Be Socialized*, 10 Vand. J. Ent. & Tech. L. 505, 509 (2008) (regarding “360” deals, Reynolds says they will “lead to catastrophic problems [due to] labels shifting their focus to touring revenues [inevitably leading to] signing artists based on their ability to make money touring . . . replacing [good album sound recording artists] by . . . [good] entertainers”). This tends to show a clash between the artist who creates quality music and the label that is concerned with making money.
  66. *See* 2-8 Nimmer on Copyright § 8.22.
  67. 17 U.S.C. § 114(g) is the relevant statute that controls the voluntary licensing proceeds, controlling where funds apply.
  68. *Broadcast Music, Inc. v. Columbia Broadcasting Systems*, 441 U.S. 1 (1979) (discussing the benefit society receives from blanket compulsory licenses from ASCAP and BMI for public performance of musical works, analogous in the digital public performance of sound recordings). *See* <http://leahy.senate.gov/press/200902/020409a.html#section> (last visited April 29, 2009), clarifying the “blanket licenses” that will be available under the Performance Rights Act of 2009.
  69. 17 U.S.C. § 114(d)(3).
  70. 17 U.S.C. § 114(d)(3)(B). This form of service and its voluntary license may be proper for now, but as more interactive services arise, and if publishers or sound recording copyright owners continue to contract with the services, a need for a statutory license or a blanket license will be required.
  71. U.S. Copyright Royalty Judges, Docket No. 2006-3 CRB DPRA; Final Determination of Rates and Terms at 10.
  72. <http://leahy.senate.gov/press/200902/020409a.html#section> (last visited April 29, 2009), setting rates at \$5,000 for commercial broadcasters with gross revenues less than \$1.25 MM and \$1,000 for noncommercial broadcasters, including public, educational, or religious under § 118. Otherwise the rates will be set by the Copyright Royalty Board.
  73. Copyright Arbitration Royalty Panels (CARPs) were phased out with the passing of Public Law 108-419, which created this board. The CARPs were arbitrary ad hoc panels who would meet from time to time to set terms and conditions of statutory licenses and recommend rates and distribute fees collected. <http://www.copyright.gov/carp/>.
  74. 17 U.S.C. § 114(f); 17 U.S.C. §§ 801 et seq.
  75. 17 U.S.C. § 114.
  76. *See Digital Performance Right in Sound Recordings Act of 1995*, Pub. L. No. 104-39, 109 Stat. 336 (1995) (prior to DMCA); *see also* Bob Kohn, *A Primer on the Law of Webcasting and Digital Music Delivery* (1998), <http://www.kohnmusic.com/articles/newprimer.html>, under § “Answer to Question 10 Under Proposed Digital Millennium Copyright Act” (last visited April 29, 2009).
  77. [http://www.copyright.gov/reports/studies/dmca/dmca\\_executive.html](http://www.copyright.gov/reports/studies/dmca/dmca_executive.html) (last visited April 29, 2009).
  78. *Id.*
  79. DMCA, Pub. L. No. 105-304; 112 Stat. 2860 (1998).
  80. 17 U.S.C. 114(j)(13); *see supra* note 64 and accompanying text.
  81. 17 U.S.C. § 114(d)(2)(C)(ii).

82. This includes an "eligible nonsubscription transmission" that (i) is not part of an interactive service; (ii) . . . transmitting entity does not automatically and intentionally cause any device receiving the transmission to switch from one program channel to another; and (iii) except as provided in section 1002(e), the transmission of the sound recording is accompanied, if technically feasible, by the information encoded in that sound recording, if any, by or under the authority of the copyright owner of that sound recording, that identifies the title of the sound recording, the featured recording artist who performs on the sound recording, and related information, including information concerning the underlying musical work and its writer.
83. *Bonneville Int'l Corp. v. Peters*, 347 F.3d 485 (2003).
84. *Id.* at 490; see Public Performance of Sound Recordings: Definition of a Service, Final Rule, 65 Fed. Reg. 77292 (Dec. 11, 2000).
85. *Id.* at 492.
86. 17 U.S.C. § 114(j)(3) (defining broadcast transmission as "a transmission made by a terrestrial broadcast station licensed as such by the Federal Communications Commission").
87. *Bonneville*, 347 F.3d at 492.
88. 17 U.S.C. § 114. The court looked to the words "translators" and "repeaters" in § 114 and determined that they were equipment, pointing to the physical building rather than the entity. This ensured harmony while reading the statute as a whole. *Bonneville*, 347 F.3d at 495 (citing *United States v. Morton*, 467 U.S. 822, 828 (1984) (offering the idea of reading a section of a statute to bring it in harmony with the rest of the statute)).
89. The broadcasters argued through the Federal Communications Act, 47 U.S.C. §§ 151 et seq., that a licensee is an entity and not a physical structure.
90. When the DPRA was enacted, the symbiotic relationship between the record labels and broadcasters was taken into consideration. Thus it contained a much broader exemption than the DMCA. Congress decided to tighten these exemptions with the DMCA, limiting the exemption for nonsubscription broadcast transmissions to only over-the-air broadcasts. *Bonneville*, 347 F.3d at 497, 499; H.R. Conf. Rep. No. 105-796, at 80 (1998).
91. S. Con. Res. 14, 111th Cong.; H. Con. Res. 49, 111th Cong. (premising an argument that "the United States enjoys broadcasting and sound recording industries that are the envy of the world" on the past argument that symbiotic relationships that exist among the industries and that Congress rejected repeated efforts to create a "performance fee on local radio stations for simply playing music on the radio and upsetting the mutually beneficial relationship between local radio and the recording industry").
92. These may be included in the Internet category as well, because all are available on the Internet. See, e.g., <http://www.spin.com>, <http://www.rollingstone.com> (last visited April 29, 2009); but see <http://www.pitchforkmedia.com> (last visited April 29, 2009).

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MK068

# 10 Steps for Navigating into the DMCA § 512(c) Safe Harbor

By Jeff Klein and Matt Manning

Copyright infringement liability is one of the most publicized and potentially costly legal risks facing online video sites, social networks and other Internet sites which enable and commercialize “user-generated” content. Whether launching, operating, investing in or planning an acquisition of an online business involving user-generated content, there is some risk that such a business could attract copyright infringement lawsuits. New media, social networking, gaming and Internet companies (and venture capital and private equity firms that invest in such companies) are advised to adopt practical strategies for minimizing risk exposure to copyright infringement and other liability arising from user-generated content.

Section 512(c) of the Digital Millennium Copyright Act (DMCA) provides online service providers with defenses against claims of copyright infringement liability for the infringing acts of end users. Qualifying for eligibility under this “safe harbor” is the most effective strategy for minimizing copyright infringement liability, but failing to qualify for this “safe harbor” does not mean that an online service provider is necessarily liable for infringement as other defenses (e.g., fair use) may apply.

To help avoid lawsuits involving user-generated content, here are 10 steps to help online service providers navigate into the safe harbor provided by § 512(c) of the DMCA:

## 1. Designate a DMCA Agent with the Copyright Office

Designating an agent to receive notices of claimed copyright infringement with the U.S. Copyright Office is straightforward (mailing in/or delivering a form containing identification and contact information) and inexpensive (an \$80 filing fee). The individual chosen should be knowledgeable about the DMCA procedures. The DMCA imposes brief times to respond to DMCA compliant notices of infringement, so consider also appointing an alternate agent who has been trained and can act in compliance with the DMCA’s requirements in the event that the designated agent is temporarily unable to do so.

## 2. Have a Working DMCA Notification System

Online businesses should include the following information in their Web sites’ publicly available terms of use: (i) name and contact information of a designated agent to receive notifications of claimed infringement and (ii) how and where copyright owners can send DMCA compliant notices of claimed infringement.

## 3. Have a Reasonable Process for Dealing with DMCA Notices *and* Terminate Repeat Infringers

Adopt, reasonably implement and inform subscribers of a policy providing that the company may, when appropriate, terminate the accounts of repeat infringers. Create a written policy that sets out clear guidelines for suspending and terminating the accounts of subscribers who infringe on the company’s Web site and include the repeat infringer termination policy in the site’s terms of use. The DMCA does not state what “reasonably implemented” means and a variety of procedures for dealing with DMCA compliant notifications are permitted *provided* the service provider (i) terminates users who repeatedly or blatantly infringe and (ii) does not actively prevent copyright owners from collecting information needed to issue a DMCA compliant notification.

Below are components of a policy that the court in *Io Group. v. Veoh Networks* recently held to be “reasonably implemented”:

- Respond to each infringement notice within a few days of receipt.
- Issue users a warning for first time upload of infringing content.
- Terminate the account of any user who has previously received a warning if notice is received that user has uploaded infringing content.
- Block and/or disable all content provided by any user who was terminated for repeat infringement.
- Block a repeat infringer’s e-mail address to prevent establishment of new account under same email address.
- Generate “hash” or a digital fingerprint for each video file and use that technology to terminate access to other identical files and prevent additional identical files from being uploaded.<sup>1</sup>

## 4. If a DMCA Compliant Notice Is Received, Quickly Take Down Infringing Content

Establish, implement and document procedures that include (i) consistent and prompt review of all notices of claimed infringement to determine whether such notices “substantially comply” with the informational and procedural requirements of the DMCA and (ii) expeditious removal or denying access to content identified as infringing in any such DMCA compliant notice. As time is of the

essence, a removal or disabling of access within 24 hours is best, though a 48-to-72-hour period may be sufficient.

#### 5. Do Not Turn a Blind Eye to Red Flags of Obvious Infringement

If there are blatant factors, or “red flags,” of obvious infringement, expeditiously remove or deny access to such materials. The following are some examples of what might be considered “red flags” of obvious infringement:

- Copyright notices that are prominently and consistently displayed in the content,<sup>2</sup>
- user statements indicating content is bootlegged or pirated,<sup>3</sup> and
- discussions among users on how the online business’s service can be used to circumvent copyright law.<sup>4</sup>

The DMCA does not impose any obligation on an online service provider to monitor and police its sites for infringing activity. Accordingly, many have criticized the “red flag” test as providing a disincentive for service providers to take technologically reasonable and feasible measures to prevent infringing files from being made available.

#### 6. Consider Using Fingerprinting, Filtering and/or Other Technology

MySpace, YouTube, Veoh and other top providers of user-generated online content have implemented copyright protection technologies, such as digital fingerprinting and content filtering, in an effort to block clips containing infringing materials. Though there is debate as to the effectiveness of these technologies, given their widespread use and support among top publishers, service providers should strongly consider implementing such technologies as part of a market-based approach for protecting copyright. When implementing any such technology, do so uniformly (i.e., do not discriminate between different sets of content) and consistently in order to steer clear of knowledge by willful blindness.

#### 7. Notify Uploader of Takedown; if Uploader Files Counternotice, Reinstate Content After 10-Day “Quiet” Waiting Period

In an effort to prevent copyright owners from abusively or mistakenly demanding the removal of non-infringing materials, the DMCA requires online service providers to notify the uploader of a removal of content and provide him or her with an opportunity to send a counternotice to challenge such removal. In order to satisfy this counternotice and reinstatement requirement, the service provider must:

- Promptly notify in writing the uploader whose content has been eliminated.

- If a counternotice is received from the uploader, forward a copy to the sender of the original takedown notice, along with a letter indicating that the removed content will be replaced or access to it will be restored in 10 business days unless a notice of court action seeking to restrain the infringing activity is received.
- Unless notice of court action is received, replace removed content or stop blocking access to it within 10 to 14 business days following receipt of the counternotice. Do not repost the content if such notice of court proceeding is received.

Service providers are not required to evaluate or determine whether the DMCA complaint was made in good faith or whether the subject content makes fair use of copyright.

#### 8. Content Must Be Stored at the Direction of the User

Only material residing on a service provider’s system or network that is stored at the discretion of a user is eligible for the safe harbor under the DMCA.<sup>5</sup> Recent cases such as *Io v. Veoh* and *UMG Recordings v. Veoh*<sup>6</sup> have analyzed this concept of the DMCA and held that performing the following activities, which facilitate user access to material on a service provider’s Web site, does not result in the loss of safe harbor protection: (i) the automated process of encoding files to different formats (such as flash format); (ii) the creation of screenshots; (iii) the automatic creation of smaller chunks of uploaded video files; and (iv) allowing users to access streaming videos and download whole video files.<sup>7</sup> However, a service provider would likely be precluded from safe harbor protection if it actively participates in or supervises the uploading of content, or previews or selects the files before the upload is completed.

#### 9. Right and Ability to Control Infringing Activity

As the DMCA assumes that a service provider has control over its system or network, courts have held that the ability to “control” the infringing activity is something more than the ability to take down or block access to content.<sup>8</sup> The “something more” concept may exist in situations where the service provider (i) previewed content before posting, (ii) edited content descriptions, (iii) gave advice about content, (iv) controlled the content users chose to upload before it was uploaded, or (v) encouraged copyright infringement on its system.<sup>9</sup> Service providers have no obligation to pre-screen any videos their users upload.<sup>10</sup> A court has held that the monitoring and/or reviewing by a service provider of its Web site to look for and remove obvious criminal and illegal activities does not amount to the ability to “control.”<sup>11</sup>

## 10. Do Not Receive a Financial Benefit Directly Attributable to Infringing Activity Within the Company's Control

If an online service provider has the right and ability to control infringing activity, it is eligible for the safe harbor if it does not receive a financial benefit directly attributable to such infringing activity. The "direct financial benefit" issue is complex and necessarily dependent on applicable facts and circumstances. Although this issue still remains to be clarified by the courts, Viacom has made arguments regarding direct financial benefit in its lawsuit against YouTube. To the extent that the *Viacom v. YouTube*<sup>12</sup> case results in a decision, this issue would be one of the more interesting DMCA legal questions the case addresses.

### Endnotes

1. *Io Group, Inc. v. Veoh Networks, Inc.*, 586 F. Supp. 2d 1132, 1143-45, 1149-50 (N.D. Cal. 2008).
2. *See id.* at 1148-49.
3. *Corbis Corp. v. Amazon.com, Inc.*, 351 F. Supp. 2d 1090, 1104-1105 (W.D. Wa. 2004).
4. *Id.*
5. 17 U.S.C. § 512 (c) (2005), *Io Group*, 586 F. Supp. 2d at 1146.
6. *UMG Recordings, Inc. v. Veoh Networks, Inc.*, 2008 WL 5423841 (C.D. Cal. 2008).
7. *Id.* at 6-10, *Io Group*, 586 F. Supp. 2d at 1147-48.
8. *Io Group*, 586 F. Supp. 2d at 1151, *Corbis Corp.*, 351 F. Supp. 2d at 1110.
9. *See Io Group*, 586 F. Supp. 2d at 1148, 1152-53, *Corbis Corp.*, 351 F. Supp. 2d at 1110. *Perfect 10, Inc. v. Cybernet Ventures*, 213 F. Supp. 2d 1146, 1181-82 (C.D. Cal. 2002).
10. *Io Group*, 586 F. Supp. 2d at 1153.
11. *Hendrickson v. eBay, Inc.*, 165 F. Supp. 2d 1082, 1093-94 (C.D. Cal. 2001).
12. *Viacom Int'l, Inc. v. You Tube, Inc.*, No. 07 CV 2103 (S.D.N.Y. filed March 13, 2007).

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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:

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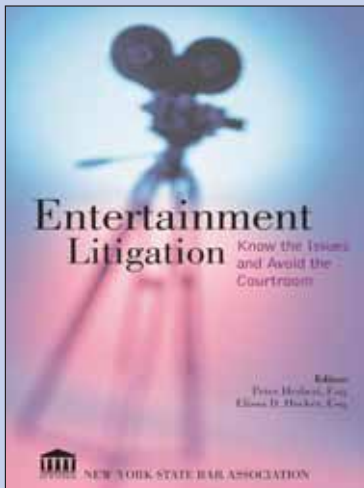
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# Entertainment Litigation



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