

Entertainment, Arts and Sports Law Journal



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



Fashion Design

- A Position Against Copyright Law in Fashion Design
- Fashion Design and the Need for Intellectual Property Protection
- Fashion Design: Art That Is Still Unrecognized in the U.S.

Also Inside

- Copyright Enforcement
- Antitrust Implications of TEAM
- Golf Course Design
- Losers by AKO
- First Amendment Issues of Nudity in Art
- Wealth Nation

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Remarks from the Chair

It was a pleasure to see everyone at the Annual Meeting and Cocktail Reception. Great thanks to Tracey Greco, Co-Chair of our Programming Committee, for all her work in organizing two dynamic panels of experts to discuss pressing issues and countervailing views surrounding the proposed Design Piracy Act and film tax incentives in New York and other states. In addition to the panels, we also had the honor of introducing the winners of the 2008 Phil Cowan/BMI Memorial Scholarship. On behalf of EASL's Executive Committee, sincerest congratulations to Bryan N. Georgiady, a third year at Syracuse University College of Law, and Ryan C. Steinman, a third year at New York Law School, for their impressive work. Overall it was an exciting and informative day for all of us.



I would also like to congratulate and commend the Pro Bono Committee on its continued commitment to providing practical training within the entertainment community. Its VLA co-sponsored "One-Day Negotiation Training" clinic provided an overview of basic and more advanced negotiation skills, including contract negotia-

tion and deal mediation, for newly admitted attorneys. "The Nuts and Bolts of Entertainment Law Litigation" panel, also co-sponsored by VLA, advised artists on the basics of entertainment law litigation, including how to draft and reply to cease-and-desist letters, how to initiate a lawsuit and what to do when one is filed against you, how to find a lawyer if you want to sue someone or need to defend against a lawsuit, and what happens once litigation has been initiated.

It has been a busy start to the year and the EASL calendar is already jam packed with events and programs for the upcoming season. In addition, we are excited about our forthcoming second book, presently entitled *The Media Law Handbook*. The *Handbook* will present a comprehensive breakdown of the major legal issues facing attorneys representing content providers as well as a current statement of the law, with valuable citations to the most recent cases and statutes. The book is scheduled to be completed later this year.

There is much to look forward to in the coming months so keep checking the website for upcoming events. I look forward to seeing all of you again soon.

Kenneth Swezey

ENTERTAINMENT LAW REPORTER

**The Entertainment Law Reporter has gone online at
www.EntertainmentLawReporter.com**

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.

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.

Editor's Note

This Spring issue is replete with interesting and informative articles written by attorneys, members of the fashion industry and law students (one of whom is this issue's LSI winner, Tiffany Walden) regarding the state of fashion. Those articles, combined with the transcript from the Annual Meeting, where the first panel focused on aspects of how intellectual property laws may or may not be tailored to protect the rights of designers, makes this a predominantly fashion-focused issue.



ment with Google. In addition, there are sports articles concerning antitrust implications in professional sporting leagues when collective actions between member teams and their leagues may cross the boundary of antitrust laws, and questions for the new Commissioner of the New York State Athletic Commission as to whether she will continue her predecessor's record of administrative suspensions.

Furthermore, there is an interesting piece about the First Amendment and the issue of nudity, and an analysis of how the traditional recording contract may be updated to reflect where the music business may be heading, namely with Live Nation deals.

As always, please feel free to e-mail me your articles, Letters to the Editor, or comments.

Elissa

The next *EASL Journal* deadline is Friday, May 15, 2009

Elissa D. Hecker of the Law Office of Elissa D. Hecker practices in the fields of copyright, trademark and business law. 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 *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 CSUSA. She can be reached at (914) 478-0457 or via e-mail at: EHeckerEsq@yahoo.com.

In addition, there was an excellent, close competition with several papers submitted from law schools across the country for the Phil Cowan Memorial/BMI Scholarship competition. Each selected author received \$2,500 towards his studies. The quality of submissions was high, and Ryan C. Steinman of New York Law School received one scholarship for "Taking a Mulligan: Moral Rights and the Art of Golf Course Design" and Bryan Georgiady of Syracuse University College of Law received one for "Fair Use and YouTube: Adapting Copyright Enforcement to the Burgeoning Volume of Transformative User Generated Content." Both articles are included in this issue. Thank you, as always, to Gary Roth and BMI for partnering with EASL and for providing the scholarship funds.

I am also pleased to include an article written by the General Counsel of the Authors' Guild, detailing the settle-

The EASL Section Blog

The EASL Section is launching its own blog, which will be available to everyone in the world with Internet access. It will provide a wonderful opportunity to create both international and national forums for debate and discussion.

The EASL Section Blog:

- Will be able to communicate a sense of currency and reinforce our strong programming, affordable CLE, and pro bono efforts;
- Give a voice to the Section;
- Provide an opportunity to flesh out EASL website postings;
- Offer previews of and comments after programs, sustaining and continuing the energy of discussions; and
- Offer timely summaries and analysis of legislation, litigation and judicial opinions.

Google considers nysba.org to be a Premiere Site, and therefore any sites linked through the EASL Section Blog will be listed high in the Google search terms and rankings. The Blog will be a wonderful opportunity to present opinions, articles and conversations that will be seen by countless others.

In order to initiate a topic, all bloggers must be EASL members, unless the Section Chair (Ken Swezey) and Blog Editor (Elissa D. Hecker) agree that a guest blogger may participate. The NYSBA blogging policy will apply to all bloggers. For example, bloggers may not use profanity, slander another, or promote competing programs.

Please share your blogs with countless others who are interested in your expertise and commentary. We look forward to hearing from you!

The EASL Section Blog will be available via the nysba.org website by clicking on "Blogs" on the left-hand menu and selecting the Entertainment, Arts and Sports Law Section.

Pro Bono Update

By Monica Pa

On January 29, 2009, the EASL Pro Bono Committee and the Volunteer Lawyers for the Arts co-sponsored a two-hour litigation workshop titled "The Nuts and Bolts of Entertainment Law Litigation," which was held at VLA's Lobby Auditorium on 1 East 53rd Street. The event targeted low-income artists, entertainers, art organizations and attorneys with little entertainment litigation training. The goal was to make litigation accessible and "less scary" to those who may need assistance but cannot afford to retain litigation counsel. We wanted to empower people who may be facing a difficult and stressful situation where their works may have been infringed, or where they may have received a cease-and-desist letter, but did not know the first thing about how to respond.

The workshop was led by three attorneys. I am an associate in the New York office of Davis Wright Tremaine LLP where I mainly represent U.S. and foreign broadcasters, magazines, newspapers, and artists in the areas of libel, privacy, copyright, trademark, and other aspects of First Amendment, publishing, media and entertainment law. Christine A. Pepe is the Director of Legal Affairs at the American Society of Composers, Authors and Publishers. She gave an in-house perspective on litigation and risk assessment. Finally, Howard H. Weller, a partner in the New York office of Mitchell Silberberg and Knupp, LLP, is a commercial litigator who has represented many well-known entertainers and artists.

The workshop presented three broad topics:

- (1) Pre-litigation and cease-and-desist letters. Specifically, how to draft one (such as to whom it should be addressed, how to lay out the claims, how to identify a copyright, trademark and right of publicity/privacy claim, how to demand the immediate halt to infringement or how to suggest settlement) and also the downsides to sending such a letter. We also discussed how to respond to a cease-and-desist letter if the recipient is not engaging in infringing conduct, or if the recipient wishes to obtain a license. We discussed risk assessment, and various business issues in deciding whether to send a letter or whether to ignore one,



Ben Brandow from VLA and moderators Howard Weller, Monica Pa and Christine Pepe.

and the possibility of inviting a potential declaratory judgment action.

- (2) Initiating a lawsuit. We discussed the logistics for filing a complaint (such as whom to sue and what to plead), what it means to proceed pro se, and statute of limitations issues. We discussed the basics for how to allege a copyright, trademark and contract claim, and requirements for filing a lawsuit, such as registering a copyright before bringing an action.

(3) Overview of what to do once litigation has been initiated. We discussed what to do if you are sued, such as how to answer/move to dismiss a complaint, the importance of document retention, the process for document review and production, and the risks of potential counter-claims or cross claims.

Sample cease-and-desist letters, a complaint, an answer and settlement agreement were distributed. Approximately 40 people attended the workshop, and the audience was engaged and interested. Several were artists who had sent or had received cease-and-desist letters. Many attorneys also attended the workshop and found this to be a good primer for entertainment litigation. The EASL Pro Bono committee hopes to partner with the VLA and other organizations to host this litigation workshop for low-income artists and practitioners on an annual or biannual basis.

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 Heckler and Christine Pepe are coordinating walk-in legal clinics with various organizations.

- Elissa D. Heckler, heckleresq@yahoo.com
- Christine Pepe, cpepe@mwe.com

Litigations

Monica Pa is coordinating pro bono litigations.

- **Monica Pa**, 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 who 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
- **Christine Pepe**, cpepe@mwe.com

Mentor Program

Elissa Hecker is coordinating the volunteer mentor/mentee program.

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

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

Are you feeling overwhelmed?

The New York State Bar Association's Lawyer Assistance Program can help.



We understand the competition, constant stress, and high expectations you face as a lawyer, judge or law student. Sometimes the most difficult trials happen outside the court. Unmanaged stress can lead to problems such as substance abuse and depression.

NYSBA's LAP offers free, confidential help. All LAP services are confidential and protected under section 499 of the Judiciary Law.

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**NEW YORK STATE BAR ASSOCIATION
LAWYER ASSISTANCE PROGRAM**

Law Student Initiative Writing Contest

Congratulations to LSI winner:

Tiffany Walden, of the College of William & Mary's Marshall-Wythe School of Law,
for her article entitled:

"Problems with the Piracy Paradox: Rebutting the Claim That Fashion Designs Do Not Need
Intellectual Property Protection"

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 e-mail 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, May 15, 2009**.
- **Submissions:** Articles must be submitted via a Word e-mail attachment to checkerresq@yahoo.com or via mail to:

Elissa D. Hecker, Esq.
Editor, *EASL Journal*
90 Quail Close
Irvington, NY 10533

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, May 15, 2009**

NYSBA Guidelines for Obtaining MCLE Credit for Writing

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

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

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

- The writing must be such that it contributes substantially to the continuing legal education of the author and other attorneys;
- it must be published or accepted for publication;
- it must have been written in whole or in substantial part by the applicant;

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

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

**Catch Us on the Web at
WWW.NYSBA.ORG/EASL**



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*.

Report from the Television and Radio Committee

By Barry Skidelsky



In December, EASL's Television & Radio Committee, along with the New York chapter of the Federal Communications Bar Association (FCBA) and the Telecommunications Law Committee of the New York City Bar Association (NYCBA), jointly presented a program on "White Spaces."

In November, the Federal Communications Commission (FCC) decided to allow unlicensed wireless devices to occupy unused television spectrum (so-called "white spaces"), after the imminent completion of the digital television transition, in order to provide wireless broadband Internet access and other services and products over what some view as a "third pipe."

Barry Skidelsky, who co-chairs both the Television & Radio Committee and the FCBA NY Chapter, moderated a lively discussion involving panelists David Donovan, President of MSTV; Steve Sharkey, Senior Director of Regulatory & Spectrum Policy, Motorola; and Gale Brewer, NYC Council member and chair of the Technology in Government Committee. As discussed, the FCC's new rules allowing unlicensed wireless broadband have huge implications, particularly for those involved with entertainment, sports, and wireless microphone usage. A diverse group of about 40 people attended the program and networking reception.

Barry would like to thank the panelists and Eileen Huggard, chair of the NYCBA Telecom Law Committee, all of whom are pictured above, as well as the attendees, for helping make this timely and informative event a huge success.

Landmark Settlement in *Authors Guild et al. v. Google* Class Action

Authors, Publishers, and Google Reshape Digital Publishing and Online Access to Books

By Jan F. Constantine and Isabel Howe

On October 28, 2008, the parties to the class action copyright infringement litigation, *Authors Guild et al. v. Google*, issued a press release announcing a groundbreaking settlement agreement. The U.S. District Court for the Southern District of New York granted the parties' motion for preliminary settlement approval, the first step in the long process of requirements including class notification, claims registration, opt-outs, objections and fairness hearing, now scheduled for June 11, 2009.¹

Background

The settlement resolves two separate lawsuits filed by a group of authors (who filed the class action) and publishers² in the fall of 2005, alleging copyright infringement by Google in its scanning of millions of books (in copyright as well as public domain) from partner libraries in order to provide user access to small portions of text or "snippets" as part of the Google Book Search program. Google's legal position was that its actions in copying entire books but displaying snippets constituted "fair use" under Section 107 of the Copyright Act. The two lawsuits were coordinated by the court and lengthy settlement discussions ensued parallel with discovery. If approved, the settlement agreement would enhance the ability of authors and publishers to distribute their content in digital form and benefit the public by expanding online access to works through Google Book Search. The agreement also acknowledges the rights and interests of copyright owners, provides the means for them to control how their intellectual property is accessed online, and enables them to receive compensation for online access to their works.

What the Settlement Does and Does Not Do

The settlement does not resolve the underlying legal issue of whether Google's use of "snippets" violates the copyright law or constitutes "fair use." The settlement will not be operative for uses outside the United States, nor will it cover public domain books or books published and/or registered with the U.S. Copyright Office after January 5, 2009. Newspapers, journals, most pictorial material and sheet music are also specifically excluded from the settlement.

Through the class action mechanism, however, the settlement creates digital access to, and new markets for, in-copyright, out-of-print books, including so-called "Orphan Works," by granting licenses to Google and participating libraries.

Settlement Agreement Terms

The comprehensive 323-page settlement agreement with attachments is available at the official settlement website, <http://googlebooksettlement.com>. There are several key provisions which will be addressed here.

Under the settlement, Google will pay a minimum of \$45 million to rights-holders of books and inserts already scanned through May 5, 2009. (Inserts are text [e.g., forewords, poems, short stories, song lyrics] or tables, charts, graphs and children's chapter book illustrations that are contained within a book, the copyright holder of which is not the rights holder.)

As discussed above, if approved, the settlement promises to create new markets for out-of-print books, while vastly improving reader access to those books. It will accomplish this by establishing a new not-for-profit organization initially funded by Google but jointly controlled by authors and publishers, the Book Rights Registry (the Registry), which will collect and distribute revenues from Google and maintain a database on rights-holders. The board will be composed of an equal number of author and publisher representatives, initially appointed by the Authors Guild and the American Association of Publishers. Google will provide start-up funds for the registry; ongoing funding will come from an administrative fee the Registry will draw from overall rights-holders' revenues.

The Google Book Search "library" will be composed of both out-of-print and in-print books. Out-of-print books scanned by Google from academic libraries are included in the database by default, although authors or publishers may request that specific books be removed. In-print books work in the opposite fashion: they are not included without the approval of the author and publisher. One of the first tasks Google will have under the settlement is to help determine what is in-print and what is out-of-print, by ascertaining which books are commercially available.

Out-of-print books are the central focus of the database. The goal was not to displace traditional markets for in-print books, but to create new markets for out-of-print books. Many books that were unavailable to the general public, and thus earned nothing for their authors, will get a second chance for monetization as a result of the settlement.

Authors (or their agents on their behalf) and publishers can easily opt out of the settlement by following procedures as part of the class action. At any time rights-holders can choose to exclude (or to include) their books from some or all of the display uses (i.e., preview, institutional subscriptions, online book purchases, and public access) by notifying the Registry. Until April 5, 2011, they can also irrevocably remove any of their titles from the database entirely.

All licensing revenues will go initially to Google, which will keep its 37 percent share and forward the remaining 63 percent to the Registry. The Registry will then pay the appropriate amount to rights-holders, after deducting an administrative fee. Google will also pass on usage data to the Registry, which will determine how the payments are to be distributed.

The revenue split between authors and publishers will vary, depending on the status and publication date of the book: For out-of-print books, there are three possibilities:

- If the rights have reverted to the author, the author will get 100 percent of the rights-holder income (minus the Registry's fee).
- If the rights have not reverted, and the book was published in or after 1987, there will be a 50/50 split between the author and publisher.
- If the book was published before 1987, the revenue split will be 65/35 between the author and the publisher, the majority going to the author.

Revenues for out-of-print books will be paid directly to authors and publishers.

For in-print books, the author-publisher split will depend on the terms of the book contract, with royalties paid by the Registry to the publisher for distribution of appropriate royalties to the author (or author's agent where applicable).

Under the settlement, there are four initial sources of revenue: institutional licensing, purchase of individual online editions, advertising, and fees from printing at public access terminals available at public libraries and institutions of higher education. It is anticipated that institutional licensing will be the most significant economically. Google will license unlimited access to the database to colleges and universities for a flat fee based on the number of full-time students and faculty.

The second source of revenue is from individual online use, which allows individuals to set up accounts with Google Book Search and pay to access specific books. Google will establish initial prices on books ranging from \$1.99 to \$29.99, but these can be overridden by authors or publishers, who can set the price for their own books. These online editions will not be downloadable by users; instead, account holders will log in to a Google account in order to view books they have purchased.

Unless rights-holders have directed Google not to place ads on their books, the same 37/63 split will apply to the third source of income, advertisements. When readers use Google Book Search individually, not through a university license, they will see ads—plain text only, with no pop-ups, audio or motion permitted—on various pages. Google will receive the income from ads displayed on most of the pages, such as those that list search results, but income from ads that show up when a reader is looking at a full page of text from a specific book will be split between Google and the rights-holders.

The fourth source of revenue is from printouts from public access viewings of books if libraries have printing capability.

Conclusion

The settlement has been described as a “win-win-win” for authors and publishers, Google and libraries, all of whom were involved in the lengthy negotiations leading to the document, which admittedly contains many compromises needed to resolve the litigation. The reality, recognized by all parties, is that even a clear win by either side could not have achieved the many benefits that the negotiated settlement agreement brings to all the parties to the litigation, not to mention the reading public.

Endnotes

1. The Hon. John E. Sprizzo signed the order granting the motion on Nov. 14, 2008. Judge Sprizzo passed away on Dec. 16, 2008; the case was reassigned to Hon. Dennis Chin.
2. McGraw Hill, Simon & Schuster, Pearson, Putnam and John Wiley filed the lawsuit under the auspices of the American Association of Publishers.

Jan F. Constantine is General Counsel and Assistant Director of the Authors Guild. Isabel Howe is the Assistant Editor of the Authors Guild Bulletin.

A Position Against Copyright Law in Fashion Design

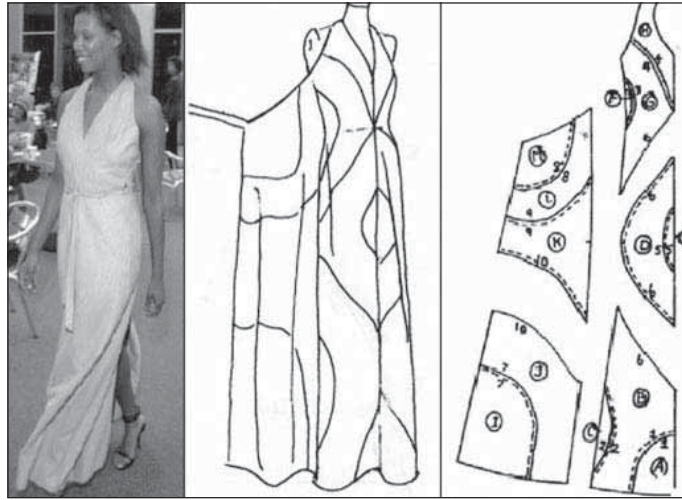
By Shirley Willett

Copying has always been an integral and accepted practice in the American fashion industry. In the 18th Century, dolls with French fashions were sent to American dressmakers to copy. In the 19th Century fashion magazines printed “patterns” for American dressmakers to copy and cut for customers. At the turn of the 20th Century, Jewish tailors in Boston *innovated production pattern making*, and the industry of American fashion apparel was born. These

technical designers continued to copy creativity. By mid-20th Century, fashion schools and colleges started teaching French dressmaking methods with design creativity, but with no *production* pattern knowledge. Toward the end of the 20th Century, major fashion brand labels hired young designers in order to exploit their ideas, with fast turnovers, and big name retailers set up their own product development departments to copy, mostly through offshore production. As a result, young, creative, designer entrepreneurs (DEs) struggled for survival, garnering no respect from big business, little practical production knowledge, and very little availability to get small production lots made in America anymore.

By the end of the 20th Century, the separation and lack of communication between designers and manufacturers was becoming increasingly worse. Kurt Salmon Associates (retail research) reported in 1989: *“Merchandising, what manufacturers call designing, is the least-effective function apparel companies perform ... a process of creativity and luck. ... Requirements can change as many as 50 times [from design to making].”* Ponder a copyright law—which of the 50 changes should be copyrighted?

The Council of Fashion Designers of America (CFDA), composed of the major brand names, started the battle for a copyright law. Their president, Diane Von Furstenberg, said, *“My job is to protect the [big name] designers, but the clothing manufacturers want something else”*—validating the bigger wall between design and manufacturing, as well as between big and small designers. I fought for these DEs against “big business” as a delegate to the White House Conference on Small Business in 1986, and again as an evaluator of Manufacturing Technology Centers for the National Research Council in 1992.



The *look* of styles, as presented in the proposed copyright law, is not important to survival of our industry. Innovative production and pattern technologies help reduce prices and raise quality, and are integral to the *industry*, yet do not get, and do not need, government protection. Fashion design—the *look*—is nothing without manufacturing. There are top brand labels copying themselves now, with fast, inexpensive and quality productions—that is the future.

Years ago, promotion to become a brand (sell my *name*) was not necessary. I sold great products that I manufactured myself, such as the evening gown in suede. In the creative production system, the stitchers could put the shell together in 15 minutes, and the dress would sell for a 60 percent profit. How silly to copyright the *look*. Production is far more important. None could copy my clothing for less, because they could not produce it for less. I designed tools that made buttonholes of much higher quality, 10 times faster, and the look from the tool helped dress sales. None copied the design because I was not media famous.

The American Apparel and Footwear Association, representing apparel and footwear manufacturers, opposes the present copyright law proposal. It sent a letter to each member of Congress explaining its concerns:

If enacted, these bills would make legitimate companies, and their legitimate designs, vulnerable to a litany of excessive litigation and bogus claims. The inherent subjectivity in both the “substantial similarity” standard for infringement and the “distinguishable variation over prior work” standard for protection would expose footwear and apparel companies, retailers, designers and ultimately the consumer to unneeded costs and uncertainty that could stifle fashion design innovation. Moreover, we believe there are practical logistical considerations that would make such a design registry difficult, if not impossible, to operate.

Copying great art and design is critical for students to learn what “excellence” is, especially technical and production excellence. During the Renaissance, all learning was by apprenticeship to the great art masters, and is the way fashion apparel, as an *industry*, started at the end of the 19th Century, with apprentices learning from pattern design masters—and in *Boston!* It is the way I have always taught fashion and the way I approach it today when guiding creative protégés who already have active and successful small business enterprises, but who need continual help with technical design and production. My number one protégé for three years, Teresa Crowninshield, is a rising design star in New England. Her cashmere and silk coats and jackets are exquisitely innovative, but she builds each one by copying my fundamental pattern templates, and by copying, for study purposes, other designers’ shapes of myriad parts. Recently, another protégé, Constance Diforo, a young creative designer from Africa, has been developing a line of career dresses for professional women by copying my pattern templates. In the 1970s, on New York’s Seventh Avenue, pattern makers from different firms would exchange and copy each other’s specific patterns, such as a collar or sleeve, to assure excellent shaping.

A copyright law in fashion design would smash young design entrepreneurs’ hopes, because every idea would have to be tested against all existing ideas. Design (fashion or any industry) must not be separated from its technical design and manufacturing. Young DEs are the future of America and its free enterprise system. Let us not force every young designer to be controlled by big brands or by a government that only works for big business and does not understand entrepreneurship and innovation.

What lawyers, academics, and business people—on both sides of the argument, and for all industries—can do is, first, *clearly define what design innovation really is*; and second, *attempt some methodologies for measuring/evaluating design innovation*. In his article “How Can We Measure Innovation?” in the April 25, 2008 *New York Times*, John Seely Brown names four methodologies. As apparel is

three dimensional, great fashion designs through history are *architectural innovations*, which, like architecture, cannot be separated from its tangible building and production processes. Today, I am devoted to young DEs and consumers, and to help empower the disadvantaged—giving them my Stylometrics pattern systems *for free to copy*. Everyone makes money on *making*—producing at low-cost. Fashion ideas are a dime a dozen.

“A copyright law in fashion design would smash young design entrepreneurs’ hopes, because every idea would have to be tested against all existing ideas.”

Ms. Willett planned to become an excellent fashion designer: from a first business at age 14 making and selling dolls’ clothes; to learning production stitching in 1940s factories; to studying great designers’ workmanship firsthand to become a superior pattern engineer. In the 1960s she was named Boston’s number one custom designer by *Women’s Wear Daily*, and single-handedly set up her own manufacturing plant, selling to top designer retailers. Her financial success for 20 years is owed to the design uniqueness and consumer orientation, and mostly to efficient engineering and production. She sold the business to a menswear manufacturer in the early 1980s to work in fashion education and research.

During the 1990s she received a series of engineering design grants from the National Science Foundation for her Stylometrics pattern technology. Representing the American fashion industry, she did a workshop at MIT in 2004, comparing design practices between industries. She founded the Boston Design Laboratory (BDL) in 2007 to dedicate her time and expertise in guiding young designers. The Fashion Group International–Boston awarded her a Ladder Award for her work in helping these young entrepreneurs.

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Problems with the Piracy Paradox: Rebutting the Claim That Fashion Designs Do Not Need Intellectual Property Protection

By Tiffany Walden

Since the beginning of civilized culture, when one person has had a successful idea, others have tried to copy it.¹ Copying steals profits, brand recognition, goodwill, and creative talent, and as a result, laws have been established in the United States, and almost every other country, to prevent such unlawful stealing. In the United States, the Constitution protects some of these ideas through Article I, section 8, which grants Congress the power “[t]o promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries.”² Other forms of expression are protected by federal legislation.³ Music, movies, logos, medicines, inventions, sculpture, architecture, and novels all fit into a proscribed category of intellectual property protection. One industry, however, is left without: fashion.⁴

The fashion industry is a \$750 billion per year industry.⁵ It is the second largest industry in New York City,⁶ and without its great influence the world’s global markets would suffer. So why is one of the largest industries in the world without legal protection? A variety of rationales exists to explain this phenomenon. Some commentators believe that fashion cannot receive intellectual property protection because it does not fit into one of the established regimes: copyright, trademark, or patent.⁷ Others believe that the courts and Congress dislike giving protection to primarily “woman-centric” industries like fashion.⁸ Recently, however, one rationale for the lack of intellectual property protection in fashion has gained attention. In 2006 Kal Raustiala and Christopher Sprigman, law professors at the University of California Los Angeles and University of Virginia, respectively, wrote an article entitled “The Piracy Paradox: Innovation and Intellectual Property in Fashion Design.”⁹ The article supposed that, at the least, the fashion industry is not harmed by its lack of intellectual property protection, and at the most, that the industry actually benefits from its lack of protection.

This article will attempt to disprove the assumptions and incorrect conclusions asserted in “The Piracy Paradox.” The first section will discuss the current intellectual property regime and how fashion designs are protected under copyright, trademark, and patent law. The second section focuses on the piracy paradox itself. A brief summary of the above-mentioned article’s thesis and main points will be presented, and in the third section, a rebuttal. The fourth substantive section will conclude with the possibility of expanding copyright law to cover fashion

designs and the existing bill in Congress that, if passed, would give fashion designs protection under copyright law.

How Current Intellectual Property Law Affects Fashion Designs

Intellectual property law protects the creations of the mind.¹⁰ Various works, artistic and literary, are protected by a form of intellectual property law. Fashion designs exist in what is known as a “low-IP equilibrium,” meaning designs receive very little protection.¹¹ The limited protection that does exist comes from the three traditional forms of intellectual property law.

“Music, movies, logos, medicines, inventions, sculpture, architecture, and novels all fit into a proscribed category of intellectual property protection. One industry, however, is left without: fashion.”

Trademark

A trademark is any word, symbol, name, or device used by a person to identify and distinguish his or her goods, including a unique product, from those manufactured or sold by others and to indicate the source of the goods.¹² Often a trademark is a logo that indicates the source, or manufacturer, of goods. For example, Chanel’s interlocking Cs, Louis Vuitton’s LV, the three stripes from Adidas, Lacoste’s alligator, and Nike’s swoosh are all well-known logos that are protected by trademark law. Use of such a logo without the permission of the trademark owner will result in a violation of trademark law.¹³

Trademark law protects the logo itself, but does not expand to protecting the item on which the logo is placed.¹⁴ Practically speaking, that means that someone can create a replica of a Chanel handbag. If that bag has the interlocking Cs on the outside, or the brand name, “CHANEL,” Chanel can sue for trademark infringement. If someone creates an identical bag but does not use the word “CHANEL” or use the interlocking Cs, Chanel has no remedy. The trademark itself is what is protected, not the item to which it is affixed. A brand’s identity is closely tied to its logo and name. Some brands do receive substantial protection from trademark law, but that

protection exists mainly in accessory lines (where logos and brand names are typically located) but not on clothing designs (which are less likely to have a logo or brand name displayed).

Trade-dress

The Lanham Act is the federal statute that covers trademark law. A registered trademark owner can have a cause of action for trade-dress infringement in addition, or as an alternative, to trademark infringement. Trade-dress refers to the distinctive features of a product's packaging or the product configuration itself.¹⁵ The Supreme Court has defined trade dress as "the total image of a product [which] may include features such as size, shape, color or color combination, texture, graphics, or even particular sales techniques."¹⁶

On first glance, trade-dress seems like the perfect protection for fashion designs, which rely on features such as size, shape, color, and texture to distinguish one designer's designs from those of competitors. The Supreme Court, however, rejected that argument in *Wal-Mart Stores, Inc. v. Samara Brothers Inc.*¹⁷ The Samara Brothers designed and manufactured a successful line of children's clothing. Wal-Mart contracted with another designer to create children's clothing based on photos of the Samara Brothers' designs. The other designer complied and Samara's client began complaining that its product was being sold at Wal-Mart. The Samara Brothers sued Wal-Mart for trade-dress infringement. The case went to the Supreme Court where Justice Scalia stated, "product design cannot be inherently distinctive. Product design is not intended to identify the source, but to render the product itself more useful or appealing."¹⁸ The Samara Brothers lost; Wal-Mart could continue to manufacture clothing copied from Samara's designs.

Justice Scalia's holding that a product's design cannot be protected if the design makes the product more useful or appealing severely limits protection for fashion designs. In fashion one product is bought instead of another precisely because a consumer finds that particular good more appealing. Trade-dress provides no protection for fashion designs unless the creator can prove secondary meaning with respect to the product design.

One notable academic, Karina Terakura, disagrees with how trade-dress protection has been applied to fashion designs. Terakura argues that trade-dress should not be considered a bar to protecting fashion designs. Many people buy clothing and accessories based on their source-identifying function. Those interested in fashion and knowledgeable about the industry are able to recognize a good as inherently distinctive.¹⁹ Even without a logo, the good may still be found to be distinctive by the fabric, color, cut, and style of the garment. The court looks for a bright-line rule to apply to fashion designs and finds an easy solution, that most fashion designs cannot be protected because they are not inherently distinctive.

Terakura argues that this is not true. The correct analysis should look at the market, and if the item identifies a source that is distinctive to its market, then protection should exist.²⁰ Terakura's view, although persuasive to some, has not been adopted by the courts and is not binding on any jurisdiction.

Patent

In narrow circumstances, fashion designs can be protected by design patents. A design patent may be obtained for "any new, original and ornamental design for an article of manufacture."²¹ A patent gives the holder an exclusive 14-year right to produce the good. The threshold, as result, for something to be considered "new and original" is very high. A work must not be the product of "purely functional requirements,"²² and in cases involving fashion, courts are often unable to separate the artistic components from the functional components, resulting in no protection for any part of the work.²³

A work must also be "novel" and "non-obvious."²⁴ Fashion is considered a form of art. The novel and non-obvious standard requires the work be different than *any single prior art reference*, a standard few fashion designs would be able to meet.²⁵ Anything in the public domain or public use cannot be protected by patent law.²⁶ Many fashion designs are created twice a year;²⁷ designs are then tweaked from season to season. Under the rigorous requirements of patent law, the majority of existing designs are similar to others, and cannot meet the originality threshold.

Procedurally, patent law is not intended to protect fashion designs. The fashion industry exists seasonally, two major collections are shown each fall and spring and the designs change according to the season. It takes the Patent and Trademark Office (PTO) an average of 18 months to review each design patent after the application has been received.²⁸ Courts often find design patents invalid, even if granted by the PTO. Patent infringement cases have approximately a 50 percent success rate.²⁹

Copyright

The Copyright Act allows authors of original works of authorship exclusive rights and control over their works for limited times.³⁰ To receive protection under the Copyright Act a work must be original and in a fixed form.³¹ Although Section 102 of the Copyright Act does not specifically include fashion designs under the items that can be granted copyright protection, it also does not prohibit it.³² Case law, however, has developed to make fashion designs almost completely ineligible for copyright protection.

When drafting the Copyright Act, Congress chose not to extend copyright protection to "useful articles" having "intrinsic utilitarian functions that are not merely to portray the appearance of the article or to convey information."³³ Fashion designs are viewed as utilitarian and

have been unable to receive protection because of their utilitarian function as clothing.³⁴ Quoting *Whimsicality v. Rubie's Costume* the court in *Morris v. Buffalo Chips* found in "limited" cases fashion designs can receive protection but only when "they are separable from the article, physically or conceptually." It continued, "Clothes are particularly unlikely to meet that test—the very decorative elements that stand out are intrinsic to the decorative function of the clothing."³⁵

In rare cases, courts found a design to be separable from the article itself and eligible for protection. The head of a tiger costume was found to be protectable, though the body of the tiger costume was not.³⁶ A belt buckle was found to be "conceptually distinct" from the belt itself and was able to receive copyright protection. The court found that the buckle had been used for ornamentation and the utilitarian function, as a buckle, was secondary.³⁷ In cases where copyright protection exists, the fashion design is not considered utilitarian and it is distinct from the clothing items itself. However, in the majority of cases, fashion designs are found unprotected by the current interpretation of copyright law.

The result of copyright law is that a sketch of a fashion design is protectable, but when the sketch takes 3-D form and becomes a dress, top, or trouser it is no longer protectable.

"The Piracy Paradox"

In Kal Raustiala and Christopher Sprigman's article, "The Piracy Paradox: Innovation and Intellectual Property in Fashion Design," the authors argue that fashion designs do not need intellectual property protection because of the existence of what they call the "Piracy Paradox."³⁸ The Piracy Paradox also notes that a lack of protection for fashion designs does not hurt the fashion industry.³⁹ Although the authors limit their thesis to that single statement, a significant portion of the paper addresses the fact that they believe the fashion industry is more successful because of the low-IP regime that exists. The piracy paradox, according to Raustiala and Sprigman, succeeds because it encourages induced obsolescence and anchoring, or trend development.

Induced Obsolescence

Things people buy are divided into two categories: those bought for their intrinsic usefulness and those considered positional goods. Positional goods are the focus of the Piracy Paradox. According to the authors, positional goods are bought because of what they say about the person who buys them.⁴⁰ Society desires positional goods because they are rare. Part of the appeal of the good is that few people know about it or can afford it; exclusivity is closely tied to the good's total appeal.⁴¹ When applied to fashion, one who believes clothing and accessories are positional goods believes part of the value of a handbag

or dress is that "the fashion people have it and unfashionable ones do not."⁴²

As fashion spreads from the high-end designers whose collections are viewed in New York, Milan, and Paris to the large department stores and eventually the mass retailers, some of a good's value is lost. Raustiala and Sprigman find that the diffusion of the good to the general public erodes its positional value and as a result designers are forced to create new items to distinguish themselves from the masses and again appeal to the "fashionable" people. The process of designers creating "must-have" items, the diffusion of the items, and their copying by the masses, generated by the fashionable people's desire for new things, is induced obsolescence.⁴³

If protection for fashion designs did exist, the system of induced obsolescence would occur at a slower rate and the industry would not sell as much. This argument is advanced by the authors' claim that induced obsolescence is successful because copies cannot be distinguished from the original. Designers are forced to distinguish themselves by creating new items. If protection for fashion designs existed it would hinder, rather than help, the industry, because original and copied designs would be distinguishable and designers would have no incentive to create new items. The result would be that induced obsolescence would occur at a much slower rate.

The authors conclude their analysis of induced obsolescence by stating that "we do not see any sustained attempt by fashion firms to prevent appropriation of their original designs by other firms,"⁴⁴ as evidence that induced obsolescence really is not a problem and that this industry is, perhaps, supportive of the concept. This statement is untrue. Even assuming years ago, when copying was not as prevalent as it is today, designers did not actively attempt to stop others from knocking off their designs, that cannot be said for today's industry. In the United States there is a huge push for American designers to receive intellectual property protection for their creations and to stop copyists from misappropriating their designs. This will be discussed later in more detail.

Anchoring

The second argument as to why fashion benefits from a low-IP regime, or alternatively is not hurt, is because of anchoring. Anchoring is the process by which trends are communicated.⁴⁵ In order for something to become a trend, it must gain "some degree of design coherence."⁴⁶ One of the major ways trends gain coherence is by copying. Copying, the authors claim, helps create and accelerate trends. Once something is established as a trend, and is subsequently copied, then the trends are no longer trendy and designers must create new ones so people can continue to be "in fashion."⁴⁷

All consumer-driven societies exist because customers buy goods. The most successful industries succeed

when consumers buy more goods than they need. The authors are correct when they state that induced obsolescence and anchoring allow for trends to grow and goods to be sold, but they are wrong in assuming that induced obsolescence and anchoring only exist in low-IP regimes. These incorrect assumptions are further discussed below.

"The Piracy Paradox's" Incorrect Assumptions

In making their relatively compelling thesis, Raustiala and Sprigman rely on incorrect assumptions about both the fashion industry and intellectual property law. In undermining those assumptions, and proving their inaccuracy, the piracy paradox fails.

Referencing v. Copying

Not just an issue of semantics, referencing and copying are two distinct concepts and the authors fail to recognize the difference. Throughout "The Piracy Paradox," referencing and copying are used interchangeably. The authors categorize all goods that can be perceived as coming from another source as "copying."⁴⁸ Referencing is using one's work as inspiration for a new design; copying is recreating the existing work and in a form that is substantially the same as the original.⁴⁹

Referencing occurs in all areas protected by copyright. Musicians reference popular songs and lyrics in new music, authors recreate popular storylines (e.g., *Romeo and Juliet*) in new books and plays, and referencing even occurs in academia, where professors and researchers reference the works of others to allow their own ideas to grow and develop. In none of these industries is referencing or taking inspiration considered a barrier to intellectual property protection. This stance would not change if fashion designs were to receive protection under copyright law. Referencing is, and would be, an activity permitted by copyright law.

The authors clearly misunderstand how referencing impacts intellectual property law when they say "a free appropriation [of ideas] contributes to the rapid production of substantially new designs that were creatively inspired by the original design." They continue: "The many variations made possible by unrestricted exploitation of derivatives contributes to product differentiation that induces consumption. . . ."⁵⁰ This statement itself is true, but the conclusion the authors hope to draw is not. It does not follow that if copyright protection, or any type of intellectual property protection, is granted to fashion designs, that designs "inspired by" other designs, or variations on existing designers, will not be protected.

In copyright law, the standard for infringement is substantial similarity.⁵¹ If a designer references, or is inspired by another, and then makes a garment or accessory that is not substantially similar to the prior design, there is no legal violation. The evolution of trends, the continuation of the creative process, and the desire to profit off

of a successful idea would not be negatively affected by establishing intellectual property law protection for fashion designs.

Copying is an imitation or reproduction of an original.⁵² Copying by its very definition does not allow for creativity or unique expression. Copying also serves little purpose. It does not foster innovation, creativity, or "promote science or the useful arts."⁵³ Copies serve to undermine the purpose of copyright law, and undermine the more basic ideas of fairness that the law seeks to protect. In the film industry, unauthorized DVDs cannot be sold without permission of the movie studio. A book cannot be photocopied and resold to the public without permission from the publisher. Fashion would be treated the same way as traditional forms of copyright law. A design copied stitch-for-stitch would violate the Copyright Act. A design inspired by another would not. There is no legitimate justification for a different rule with respect to fashion designs.

Designers frequently get inspiration from others. They also get inspiration from their own lives and experiences. Few designers would deny this. Yet few designers would also agree with the statement made by Raustiala and Sprigman that "[t]he [fashion] house that sets the trend one season may be following it the next . . . Some may originate more than others, but all engage in some copying at some point."⁵⁴ As stated earlier, the authors misuse the term "copying." In this statement, they find that most designers "engage in some copying," when in fact most designers engage in referencing, a distinct concept. If the authors recognized a difference between referencing and copying, which they consider industry talk for the same concept,⁵⁵ they would realize that designers often reference other designers, but do not copy their designs.

Changing Trends

The authors' misunderstanding of copying is closely tied to their misunderstanding of trends. Similar to the misuse of the terms "copying" and "referencing," the authors do not fully understand the definition of "trend." A trend develops over time and lasts for various periods of time,⁵⁶ but the basic idea of a trend comes from different people's take on a single idea. There is no science to determining a trend, and as per an old saying, "Once is happenstance, twice is coincidence, and three times is a trend." Trends are created by designers, people on the street, emotions,⁵⁷ and as a response to the events that are happening in larger society. Trends may be, but they are not always, directly related to the duplicating of fashion designs. As trends are not completely determined by copying, copyright protection for fashion designs would still allow for trends to continue to grow and develop. To demonstrate this theory, one can look to markets where intellectual property protection exists for fashion designs. Fashion has not remained a stagnant force in those

markets, but continues to be a profitable and creative industry.⁵⁸

The United States has never had intellectual property protection for fashion designs. Yet copying, or style piracy, has been a rampant problem for over a century. In the 1930s, in response to the copying of their designs, American fashion designers took action. The Fashion Originators' Guild of America (the Guild), which consisted of American fashion designers, textile manufacturers, and garment manufacturers, was an organized union. The Guild adopted a practice whereby textiles would only be sold to buyers that would agree not to copy other American designers' garments.⁵⁹ They also had agreements with stores that prohibited the sale of garments that were not Guild-approved.⁶⁰ The Guild was successful in its endeavor until the agreement was found to violate the Sherman Act's anti-trust provisions. Yet during the period of time in which the Fashion Originators' Guild was successful, a type of intellectual property-like protection existed for fashion designs in the United States.

Under the authors' understanding of how a trend is established, without copying, trends would not be created, accelerated or developed in a "'coherent' fashion."⁶¹ Yet during the time the Guild's exclusivity agreements existed, trends were still identifiable, recognizable, and changing in America.⁶² This serves as evidence that prohibitions against copying do not necessarily negatively affect the development and coherence of trends.

Europe is another example that further illustrates this point. European countries have more expansive copyright protections than the United States. Both the United Kingdom and France's copyright laws grant fashion designs explicit protection.⁶³ France has perhaps the greatest fashion industry in the world and its history includes some of the most well-known designers and design techniques ever created. Today, French designers and fashion houses often set trends and influence the rest of the design world. Trends also develop within France.⁶⁴ In France, intellectual property protection that prohibits copying does not affect trends in fashion.

21st Century Technologies

Successful ideas and innovations have always existed, and those who did not create the successful innovation have constantly tried to copy others' ideas. Yet how copying takes place has changed dramatically in the past decade. Copying is now instantaneous and precise. In *Johnny Carson v. Zeeman*,⁶⁵ the plaintiff created a men's suit, which had features the defendant, a garment manufacturer himself, "had never before seen in that particular combination."⁶⁶ The defendant thought that the suit would be a financial success if he were able to manufacture it himself. He purchased a suit from a retailer, physically deconstructed the suit, measured it, made a pattern, and re-sewed the suit. When he was done copying the suit he had the audacity to try to return it!⁶⁷

The ultimate holding in the case is not important,⁶⁸ the real value in the case lies in the description of the defendant's process in having to "copy" the plaintiff's designs. The plaintiff designed the suit in question in 1973 for its Spring 1974 collection. The suit was a key piece of the collection and a significant amount of the plaintiff's marketing budget was spent on promoting the suit, which later became a huge success. The defendant took the first steps at copying the plaintiff's suit in November 1974. In February and March of 1975, the copied suit was featured in advertisements for the defendant. The plaintiff filed suit on March 25, 1975, almost two years after the plaintiff originally designed what was known as the Johnny Carson suit. Although he still suffered a financial and reputational harm from the direct copying, the plaintiff was able to establish himself in the market and profit off of his creative new design before infringers began making copies.

The fashion industry provides a particularly poignant example of how technology has changed the process of copyright infringement. Today, as in the time of *Johnny Carson*, fashion designers show their collections a full six months in advance of when they are expected to appear in stores.⁶⁹ Within minutes of a fashion show ending, photos from the show are posted on the Internet,⁷⁰ and immediately copyists get to work.⁷¹ Pictures from fashion shows are downloaded and sent to factories in India and other third-world countries. From there, patterns are cut using computer generated programs and fabric samples are chosen to match the original.⁷² The goal of the copyist is to produce a design that mimics the original as closely as possible, but at a much lower price point. The design is then mass manufactured by machine in that developing country. Within two weeks the garment can be in the United States, ready to be sold in boutiques and department stores throughout the country.⁷³ Often, copies are in stores before the originals.⁷⁴

It is clear that technology has changed the way copying occurs. Without regulation the market cannot compete against illegal copyists. Existing laws in the United States governing child labor, overtime and workplace safety do not allow designers to create garments as quickly as copyists. Most established designers and up-and-coming talent will not manufacture their garments in third-world countries like China or India, where child labor is often used, work conditions are generally poor for employees, and product quality is significantly lower than in more developed countries.⁷⁵

Further, fashion is a trade industry and it works on a seasonal basis. Many designers do not want their designs to enter a store before the proper time to market and sell their goods. A lapse must occur between when a design is first shown on the runway and when it appears in the stores for retail sale.

The apparel and accessories market has shifted dramatically in recent years. Copyists can now take a designer's novel creation and manufacture the dress quicker than the original designer. Technology has advanced so quickly that the Founding Fathers never could have imagined the ease in which copyrights could be infringed. Nor could they have imagined the profits that are made by infringement. The costs of trademark infringement, counterfeiting, and piracy are far-reaching. Copying in the fashion industry alone costs the industry approximately \$9 billion.⁷⁶ Counterfeit goods earn approximately \$12 billion a year.⁷⁷ Monetary loss is not the only harm that results. INTA, the International Trademark Association, describes some of the non-monetary costs associated with counterfeit goods:

[d]epending upon the nature of the product being counterfeited, there can be serious health and safety concerns—as, for example, in the case of counterfeit baby formula, drugs, car parts, or electronic goods. Needless to say, counterfeiting damages trademark owners' goodwill in their products and detracts from their profits; in addition, it damages retailers selling legitimate products, resulting in missed opportunities to create jobs and actual job losses. Counterfeiting also deprives national economies of customs duties and tax revenues. Consumer confidence and the value of branding may suffer when purchasers discover that the product they bought, believing that it was being sold under a recognized brand, is in fact not authentic.⁷⁸

It is clear that counterfeiting, and design piracy, do not just affect fashion designers. Piracy hurts the economy and society as a whole.⁷⁹

Designers and Fashion Houses Are Being Hurt

Raustiala and Sprigman's argument relies on the premise that style piracy, or copying, does not hurt the American fashion industry.⁸⁰ This statement is not true. Many designers and their agents have spoken out against fashion piracy as both a moral wrong and a type of thievery.⁸¹ Oscar de la Renta, arguably one of the most successful high-end designers in the United States, believes that he has a property right in his brand and his clothing designs:

My designs are known for their sophisticated shapes and feminine silhouettes. The fit, cut, and detailing of our clothes are as much a part of the Oscar de la Renta brand as our logo itself. They are just as recognizable to our customers and should be protected equally.⁸²

This statement sees fashion designs as items with a distinctive source and value. To Mr. de la Renta, fashion designs are a true property right, as opposed to a moral right, and require stronger legal protection.

Alternatively, Stan Herman justifies the protection of fashion designs as a necessity for the industry as a whole: "As a major leader in the world of fashion we are obligated to take the responsibility of protecting the creative process and the designed product that it produces."⁸³ If copyists are not stopped, then the entire industry will suffer in the long-term, when America is no longer seen as a source of innovation and creativity.

Designers spend thousands, and sometimes hundreds of thousands, of dollars to prepare a single collection and fashion show. Time and effort is spent researching fabrics, ideas, and techniques. When another designer immediately copies these ideas and sells them at a lower price (partly because he did not have the research and development costs in creating the original product), the original creator loses the ability to recoup his costs.⁸⁴

Although not expressly stated, much of the piracy paradox seems to rest on the notion that only high-end designers want or need copyright protection for their designs. However, fashion does not exist only in high-end couture. Fashionable clothing and accessories exist at every price point. Giving protection to fashion designs would prohibit the \$14 Havaniana sandal from being knocked off for \$6 and it would not allow the \$30 Crocs shoe to be produced for much less.

Five years ago, Crocs was one of the most successful shoe brands in the United States. Today it is practically bankrupt. Although there are many reasons for the plummet of Crocs' stock, one important reason is "cheap knock-offs hurt sales and competitors marketed similar products," and Crocs was unable to compete.⁸⁵ If copyright protection existed for fashion designs and Crocs met the procedural requirements, this type of infringement would most likely not occur (or not occur on such an obvious scale). Intellectual property protection for fashion benefits everyone in the industry, as well as society, and not just those with stores on Madison Avenue. Young designers can be particularly hurt by copying. Philip Lim succinctly describes the problem that American designers face from current copyists:

... pirates selling our goods do a horrible job knocking it off. On one hand, it is a sign as a young designer that you are being noticed world-wide. On the other hand, it chips away at your credibility in terms of product and long-term customer education. Meaning, if someone who has only heard of the brand through magazines logs onto eBay to purchase a counterfeit and they receive the horrible

product, they will associate us with this counterfeit. In that way, it really destroys our potential future bottom line. And the only thing we can do is report it to eBay. It's like having your hands tied!⁸⁶

Raustiala and Sprigman's piracy paradox is well-researched and pulls to the forefront many of the problems that exist for the fashion industry today. However, the authors incorrectly assume that copying does not harm the industry. By failing to recognize a substantive difference between copying and referencing and misunderstanding the evolution of fashion trends regardless of intellectual property protection, the argument loses force and is not based on industry practice. Finally, by not giving enough credit to how technology has reshaped the way copyists operate, the authors fail to see the full harm that results to designers, both high- and low-end, from the many forms of design piracy.

Possible Solutions to Intellectual Property's Inadequacy in Protecting Fashion Designs

The piracy paradox is false. Copyists are hurting designers; each season it becomes harder for new designers to break into the fashion industry. Something needs to change to allow fashion designers the same legal protections received by other forms of creative expression. Many solutions have been proposed to protect fashion designs, many based in copyright, which protects creative expression and awards innovation and creativity.⁸⁷ Copyright law was traditionally limited; it protected musical works, written word, paintings, film, and other similar mediums. Recently copyright law has been expanded to protect a host of different entities that although "creative" and "foster innovation" are nothing like the works traditionally protected by this type of law.⁸⁸

Boat Hulls and Buildings

The expansion of copyright law can be best illustrated by the protection granted to boat hulls. Using *sui generis* protection, Congress expanded copyright law protection to water vessels.

A boat hull is the bottom of a boat. Each hull has "a unique shape that give it certain handling and performance characteristics."⁸⁹ Under traditional copyright law, there would be no question that boat hull design would not be protected. Yet in 1998, The Vessel Hull Design Protection Act (VHDPA), part of the Digital Millennium Copyright Act (DMCA),⁹⁰ added chapter 13 to title 17 of the United States Code and established *sui generis* protection for original designs of vessel hulls.⁹¹ Vessel design protection lasts for 10 years; since the act was passed more than 100 vessel hull designs have been registered.⁹²

It is a very weak argument that boat hulls are used to "promote the sciences and the arts" or foster creativity in the arts. The Founders never considered protecting boat

hulls when they contemplated copyright and patent protection in the Constitution. Yet, somehow, copyright law has expanded to protecting this form of expression.

The VHDPA was not the first instance when Congress expanded copyright law; the Architectural Works Copyright Protection Act (AWCPA) became law in 1990. The Copyright Act defines "architectural work" as "the design of a building embodied in any tangible medium of expression, including a building, architectural plans, or drawings."⁹³ Congress passed the Architectural Works Amendment to meet treaty obligations from the Berne Convention.⁹⁴ Whether the Act is properly used in the profession is another debate, but Congress nevertheless allowed copyright protection to expand in order for the United States to have similar laws to its European counterparts.

In Europe, copyright law protects fashion designs. Following the precedent set in passing the AWCPA, it would be within Congress' power to adopt a statutory scheme for fashion designs. Fashion designs are a creative medium used as a form of self-expression; boat hulls seem almost functional by their mere definition. Because boat hulls already receive protection under copyright law, it would not be too great an expansion of the existing laws to allow protection for fashion designs.

The Design Piracy Prohibition Act

Since 2005, The Council of Fashion Designers of America (CFDA) has lobbied for an amendment to the Copyright Act. Based on the Vessel Hull Design Protection Act, the Design Piracy Prohibition Act⁹⁵ would give original fashion designs limited copyright protection. Fashion design includes: "i) clothing, including undergarments, outerwear, gloves, footwear, and headgear; ii) handbags, purses, and tote bags; iii) belts; and iv) eye-glass frames."⁹⁶ The DPPA is more limited than the VHDPA, protecting original designs for only three years, and requiring a designer to register his or her design within three months of its creation.⁹⁷

Individuals would be found in violation if they create designs that are substantially similar to registered designs, import infringing items, collude to import such items, or fail to disclose the source of an item suspected of being an infringing garment.⁹⁸ Actual knowledge would not be required to find infringement; if one had reasonable grounds to know that design protection is claimed, an action for infringement could survive.⁹⁹ Damages are also governed by statute and they would be \$5 per copy, or \$250,000 total.¹⁰⁰ Damages would be more substantial under the DPPA than the VHDPA, but design piracy is a more profitable and better-developed industry than vessel hull piracy.

Commentator Views on the DPPA

In addition to the CFDA, the American Apparel and Footwear Association, a 200-member lobby, supports

limited protection for original fashion designs. Academics and industry commentators fall on both sides of the issue, but many believe that fashion deserves intellectual property protection and that the DPPA should be enacted. Susan Scafidi, a law professor at Fordham Law School, finds that

[i]t is an empirical fact that established fashion houses have thrived with intellectual property protection, not without it. Small emerging designers, who cannot yet hide behind their trademarks, continue to suffer from the copying of their designs, as do designers whose artistic vision doesn't include giant logos or repetitive elements of trade dress.¹⁰¹

She continues:

The benefit of the Design Piracy Prohibition Act is not just that it would give Narciso¹⁰² [Rodriguez] and many lesser-known designers a cause of action. In today's global market, the United States needs to recognize and address the international copyright implications stemming from fashion piracy in its own backyard.¹⁰³

Matthew S. Miller, a legal consultant for Business and Legal Affairs Department at Metro-Goldwyn-Mayer Studios, urges the United States to take action to protect its designs similar to what is done in Europe.¹⁰⁴ Alain Coblescence, an attorney licensed in both New York and France,¹⁰⁵ believes the DPPA "must be enacted to protect our fashion industry, to promote American design, to harmonize U.S. law with that of our closest trade partners and to fight against counterfeiting."¹⁰⁶

Americans are not the only ones who believe fashion designs should receive legal protection. European and American designs are sold in many of the same global markets, and many see the differing laws and treatments of American and European designers as unequal. European fashion houses are at risk of diluting their brands by selling their goods in the United States, where there is no copyright protection. Hermes CEO Patrick Thomas believes that protecting fashion designs is paramount to fostering innovation and protecting a brand's image.¹⁰⁷

Not all of the discussion of the DPPA is positive. Raustiala and Sprigman, among others in the industry and academia, attack the DPPA and disbelieve its potential to help the industry. One potential problem mentioned by Raustiala and Sprigman is that litigation costs would be too high if designers could sue for copyright infringement for their designs.¹⁰⁸

Litigation is incredibly costly, and it often ends up with a result that does not seem fair. Yet the cost of litigation can be an excuse used to prevent upholding the law

in every situation. Inaction based on cost or difficulty should not serve as acceptance for others to break the law. However, irate designers claiming design piracy do not clog European courts with cases of copyright infringement. Sprigman and Raustiala use the lack of copyright infringement cases in fashion design to prove that protection is not necessary.¹⁰⁹ This author believes otherwise. When laws are in place making certain behaviors illegal, people are less likely to behave in that manner. The fear of litigation or a large damages award will deter infringers from committing illegal acts. This may be a better explanation as to why European courts are not burdened with cases of copyright infringement.

Recently, Timberland and The Nautica, two well-known American brands, sued Trendy Fashions for trademark infringement. Timberland and The Nautica were ultimately successful, and Trendy Fashions had to pay more than \$500,000 in legal fees. An insider at Trendy Fashions said the cost of legal fees and confiscated materials "nearly ruined us."¹¹⁰ If copyright law was expanded to fashion design, infringers like Trendy Fashions may alter their designs to avoid infringing and thus avoid costly litigation.

The authors also argue that it will be too difficult to determine where infringement occurs,¹¹¹ as some people in the industry believe that there are no original fashion designs.¹¹² Yet that same outlook can be expanded to music, film, and literature. The bar for copyright protection is not as high as that for patent (novel, non-obvious). Most artists get their inspiration from others, and that does not take them out of the ambit of copyright law. The argument that there is no originality in fashion is without merit.

The second part of the argument—that it will be too difficult to draw the line on when and where infringement occurs—also fails. There is no evidence that it will be more difficult for a finder of fact to determine whether a trademark violation has occurred, whether a song's copyright has been infringed, or whether a design of a clothing item has been copied.¹¹³ Finding infringement in all forms of intellectual property law is difficult—experts are called, surveys are produced, and determinations are made—but that should not limit what forms of expression can be protected. Expanding copyright protection for fashion designs would operate in the same framework as traditional copyright law, and the legal analysis to find infringement would be the same.

A final argument against expanding copyright to fashion designs is that it will stifle creativity.¹¹⁴ Again, this argument could be applied to all copyright law, but it would fail. Copyright law does not prohibit creativity; rather, it prohibits the manufacture and sale of direct copies or substantially similar copies of another's creation. There is no creativity in photocopying a book, just as there is no creativity in copying a dress seam-for-seam.

The creativity that is actually stifled is the original designer's, who may no longer create as before because of the fear of copyists appropriating his designs.

The DPPA expands copyright law further than the Founders intended. Recent shifts in copyright law through the passage of the AWCPA and the Boat Hull amendment to the DMCA have eroded traditional copyright law to a point where fashion designs now fit squarely within the scope of its protection. Fashion designers are losing revenue, exposure, and are unable to compete against piracy in today's technological age. Only with protection from the DPPA can American designers have equal footing in the fashion industry.

Conclusion

Fashion is one of the few creative industries that do not receive intellectual property protection. The industry employs more people than some small countries, and its yearly revenues are higher than many gross domestic products. Counterfeiting costs the United States approximately \$250 billion a year,¹¹⁵ can be prosecuted under trademark law, is recognized by the courts, and is enforced through both civil and criminal courts across the United States. Design infringement, which is essentially the same thing (except without the logo), receives no protection. Legislatures and courts refuse to recognize the impact that copying and design infringement has had on this important industry. Fashion designs are protected in limited ways by existing intellectual property laws: trademark law protects logos and design patents are available for the few designs that qualify, but in 99 percent of cases there is no current intellectual property regime that protects them. Kal Raustiala and Christopher Sprigman argue that this is a good thing, that the piracy paradox that results from fashion's lack of intellectual property protection does not damage the industry but rather may help it. Copying fosters innovation and allows designers to sell their products, something the authors believe would not occur if intellectual property protection were given to fashion designs.

This argument fails for a number of reasons. In making their argument for the piracy paradox, the authors do not discern a difference between referencing a work and copying the work exactly. The fundamental difference between the two concepts is at the heart of argument of expanding intellectual property law to fashion. Referencing is, and should be, allowed. Prohibiting copying of fashion designs would not stop referencing of works and designs would still be able to pay homage to others. What would be stopped is the seam-by-seam, panel-by-panel recreation of a garment with no demonstrated independent creativity. The authors also fail to recognize that even when intellectual property protection is given to fashion designs, trends still change. The authors' argument that fashion designers benefit from anchoring would still hold true. To prove this point, this author uses two examples:

First, the Fashion Originators' Guild created the closest thing to an intellectual property regime for fashion in the United States, and during that time trends still changed and styles developed. Second, in Europe trends change and fashion is an incredibly successful industry even though European laws provide protection for their fashion designs. Technology has changed in a way that designers are being hurt and creativity is being stifled because of design copying.

The piracy paradox is at the least not true, and at the most it misunderstands the fundamentals of the fashion industry in making its conclusions. Fashion designs need copyright protection, along with all other art forms. The DPPA is an adequate way to allow designers to protect their investments and designs while allowing competition in the marketplace.

Endnotes

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3. 15 U.S.C. § 1051 *et seq.* (1988).
4. Sarah E. Galbraith, *Second Life Strife: A Proposal for Resolution of In-World Fashion Disputes*, B.C. Intell. Prop. & Tech. F. 090803, 23 (2008).
5. Kal Raustiala & Christopher Sprigman, *The Piracy Paradox: Innovation and Intellectual Property in Fashion Design*, 92 Va. L. Rev. 1687, 1693 (2006).
6. Video: Stop Fashion Piracy, (2008) available at <http://www.stopfashionpiracy.com/theindustryspeaks.php>.
7. See Peter K. Yu, *Intellectual Property at a Crossroads: Why History Matters*, 38 LYALR 1, 3-4 (2005) for a general discussion on constitutional originalist's intent in expanding intellectual property law.
8. Fair Use and the Fairer Sex: Gender, Feminism, and Copyright Law, Ann Bartow works.bepress.com/cgi/viewcontent.cgi?article=1019&context=ann_bartow.
9. Raustiala & Sprigman, *supra* note 5 at 1687.
10. World Intellectual Property Organization, *What Is Intellectual Property*, (2008) <http://www.wipo.int/about-ip/en/> (last visited Nov. 28, 2008).
11. Raustiala & Sprigman, *supra* note 5 at 1699 (stating "today the fashion industry operates in what we term a 'low-IP equilibrium'." "The three core forms of IP law—copyright, trademark, and patent—provide only very limited protection for fashion designs.").
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13. *Major League Baseball Properties v. Salvo*, 542 F.3d 290, 295 (2008).
14. Emily S. Day, *Double-Edged Scissor: Legal Protection for Fashion Design*, 86 N.C. L. Rev. 237, 248 (2007).
15. *Two Pesos, Inc. v. Taco Cabana, Inc.*, 505 US 763, 112 S.Ct. 2753, n. 1 (1992).
16. *Id.*

17. *Wal-Mart Stores Inc. v. Samara Brothers, Inc.*, 529 U.S. 205, 120 S.Ct. 1339 (2000).
18. *Id.* at 212–213.
19. Karina K. Terakura, *Insufficiency of Trade Dress Protection: Lack of Guidance for Trade Dress Infringement Litigation in the Fashion Industry*, 22 U. Haw. L. Rev. 569, 604 (2000).
20. *Id.* at 605 (2000).
21. 35 U.S.C. § 171 (1951) (amended 2005).
22. Lynsey Blackmon, *The Devil Wears Prado: A Look at the Design Piracy Prohibition Act and the Extension of Copyright Protection to the World of Fashion*, 35 Pepp. L. Rev. 107, 121 (2007) (citing William H. Francis & Robert C. Collins, Patent Law 716 (West Group 2002)).
23. *Id.* at n.84.
24. *Stormy Clime Ltd. v. ProGroup, Inc.*, 809 F.2d 971, 978 (1987) (overruled on other grounds).
25. Professor Wagner, *The Devil Wears Prada: Why Fashion Should Not Be Protected Under Patent Law*, University of Pennsylvania, Introduction to Intellectual Property Law and Policy, Apr. 7, 2007, http://www.law.upen.edu/blogs/polk/ip/archives/2007/04/the_devil_wears_1.html (explaining why design patents are not apt to protect fashion designs).
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27. Tony Hines & Margaret Bruce, *Fashion Marketing: Contemporary Issues*, 171 (Butterworth-Heinemann 2007) (2001).
28. Christine Magdo, *Protecting Works of Fashion from Design Piracy*, LEDA (2000), <http://leda.law.harvard.edu/leda/data/36/MAGDO.html>.
29. *Id.*
30. 17 U.S.C. § 102 (1976).
31. *Id.*
32. *See Id.* (The Copyright Act does not state that the list given is exhaustive, or that recovery under the act must be limited to one of the itemized mediums.).
33. 17 U.S.C. § 101 (1976) (defining useful article).
34. *Whimsicality, Inc. v. Rubie's Costume Co. Inc.*, 891 F.2d 452, 455 (1989) (stating, “We have long held that clothes, as useful articles, are not copyrightable.”).
35. *Morris v. Buffalo Chips Bootery, Inc.*, 160 F.Supp.2d 718, 720 (2001).
36. *Celebration Int'l v. Chosun Int'l, Inc.*, 234 F. Supp 2d 905, 912 (S.D. Ind. 2002).
37. *Kieselstein-Cord v. Accessories by Pearl, Inc.*, 632 F. 2d. 989, 993 (2d Cir. 1980).
38. Raustiala and Sprigman, *supra* note 5.
39. *Id.* at 1693.
40. *Id.* at 1718.
41. *Id.* at 1719.
42. *Id.*
43. *Id.* at 1722.
44. *Id.* at 1726.
45. *Id.* at 1728.
46. *Id.* at 1728–1729.
47. *Id.* at 1732.
48. *Id.* at 1705 (stating that fashion design copying is ubiquitous).
49. *See* The Business of Fashion, <http://www.businessoffashion.net/2008/04/everyones-talki.html> (last visited December 7, 2008) (discussing drawing the line between referencing and copying).
50. Raustiala & Sprigman, *supra* note 5 at 1724.
51. *See Warren Publ'g, Inc. v. Microdos Data Corp.*, 115 F.3d 1509, 1516 (11th Cir.1997) (en banc). (Stating, “This standard occupies a non-quantifiable value on the legal spectrum between no similarity and identicalness.”); 4 Melville B. Nimmer & David Nimmer, Nimmer on Copyright § 13.03[A] (2006); *see also* *Bateman v. Mnemonics, Inc.*, 79 F. 3d 1532, 1543 (“Two works need not be identical in order to be deemed ‘substantially similar’ for purposes of copyright infringement.”).
52. Oxford English Dictionary, *available at*: http://dictionary.oed.com/cgi/entry/50049905?query_type=word&queryword=cop&first=1&max_to_show=10&sort_type=alpha&search_id=TfTg-tXLa7s-5422&result_place=2 (defining copying).
53. U.S. Const., art. I, § 8 cl. 8.
54. Raustiala & Sprigman, *supra* note 5 at 1727–1728.
55. *Id.*
56. Tony Hines & Margaret Bruce, *supra* note 27 (Stating, “Fashion trends may vary in longevity, with a particular ‘look’ crossing many seasons.”).
57. *See* Yun-Seung Cho & Joohyeon Lee, *Development of a macroscopic model on recent fashion trends on the basis of consumer emotion*, 29 Int'l J. of Consumer Studies 1, abstract (Jan. 7, 2005) (finding that there is an emotional connection to trends in consumerism).
58. Pramod Awasthi, *Global Step: Leather Industry on its Toes*, The Times of India, Dec. 5, 2003 (quoting Italian Trade Commissioner, Dr. Guglielmo Galli, “In Europe fashion trends change every three months and constant innovation in the product is key to surviving the competition as in the present global market copy cats are always ready to highjack ideas and designs of big companies.”).
59. *Fashion Originators' Guild of America v. FTC*, 312 US 457, 463, 61 S. Ct. 703, 706 (1941) (approximately 12,000 retailers agreed not to buy garments that would be considered pirated copies of Guild members' designs).
60. *Id.*
61. Raustiala & Sprigman, *supra* note 5 at 1729.
62. *See Forward Designs Lead in Millinery*, N.Y. Times, Feb. 1, 1939, *available at*: <http://select.nytimes.com/gst/abs/tract.html?res=F B0717FD3A5B177A93C3A91789D85F4D8385F9&scp=7&sq=trend,%20fashion%201939&st=cse> (In spring of 1939 small hats were the new trend from milliners); *See also* Results, Search, N.Y. Times, (search conducted December 7, 2008) <http://query.nytimes.com/search/sitesearch?query=gabardine+trim&submit.x=0&submit.y=0&submit=sub> (various articles demonstrating that gabardine was a popular fabric to use in trim throughout the time of the Fashion Originator's Guild ban); Farkas, *A Procession of Fashion for Spring at Shows in New York, New Fashion Showings Bring Out International Trends of Spring*, N.Y. Times, March 8, 1940, p. 10, *available at*: <http://select.nytimes.com/gst/abstract.html?res=F 10A10FE3D54117A93CAA91788D85F448485F9&scp=2&sq=trend,%20fashion%201940&st=cse> (in 1940 the mermaid silhouette gained popularity and the prevalence of stripes were noted in designers' collections).
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64. *See* Fall 2008 Trends, <http://www.vogue.fr/mode-dossier-black-obsession-libre509.htm>.
65. *Johnny Carson v. Zeeman Manufacturing*, 1978 WL 21356 (N.D.Ga. 1977), 203 U.S.P.Q. 585.
66. *Id.* (These features included patch pockets on the coat, white contrast stitching on the pockets, lapels and edges of the coat, and white piping chevrons on the pockets. None of these were new to men's clothing, but they were put together in a way that was new to the defendant.).

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73. *Id.*
74. *Id.*
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76. Wilson, *supra* note 71.
77. *Id.*
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79. See Video: Stop Fashion Piracy, (2008) available at <http://www.stopfashionpiracy.com/theindustryspeaks.php>, for a more detailed description of the economic harms that result from design piracy.
80. Raustiala & Sprigman, *supra* note 5 at 1690 (stating that “copying functions as an important element of—and perhaps even a necessary predicate to—the apparel industry’s swift cycle of innovation”).
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86. Stop Fashion Piracy, The Industry Speaks, *supra* note 81 (quoting Philip Lim).
87. U.S. Const., art. I, § 8 cl. 8.
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Fashion Design: The Work of Art That Is Still Unrecognized in the United States

By Biana Borukhovich

"Fashion is not something that exists in dresses only. Fashion is in the sky, in the street; fashion has to do with ideas, the way we live, what is happening."¹ For this reason, fashion designs are works of art that should be granted protection. At the 2006 Academy Awards Show, actress Felicity Huffman wore a black gown created by 27-year-old fashion designer Zac Posen.² Within weeks of the show, copies of the dress were being sold in department stores for a fraction of the original price.³ This is design piracy.

"Fashion is in the sky, in the street; fashion has to do with ideas, the way we live, what is happening.' For this reason, fashion designs are works of art that should be granted protection."

Design piracy is the practice of copying original fashion designs and selling the apparel under a different label. It is similar to counterfeiting, which is another form of copying. It is the practice of imitating fashion designs with the intent to deceive buyers of the apparel's true content or origin, by mimicking the details of the design and the name brand logo. "Everyone is against counterfeiting. Design piracy is exactly that. One has to copy the design first before attaching the counterfeit label. Design piracy is counterfeiting without the label."⁴ However, counterfeiters can be prosecuted under trademark law, trade dress and copyright law, but pirates of designs cannot.

As copyright law in the United States does not protect useful articles,⁵ Congress has denied copyright protection to fashion designs on the grounds that clothing garments have traditionally been viewed as useful articles rather than artistic creations.⁶ The author of counterfitchic.com takes an opposing view to the foregoing decision. "A ball gown is a work of art. What else are you going to do with it? Clean the house?"⁷ Unfortunately, Congress has not understood this fact.

Art has been defined as the expression or application of human creative skill and imagination, typically in a visual form such as painting or sculpture, in which the works produced are appreciated primarily for their beauty or emotional power.⁸ It stands to reason, therefore, that fashion design would be considered art, and because fashion designers apply creative skills when drawing designs for original apparel that are acknowledged for their aesthetics.

Continuing with this logic, it would seem to follow that fashion designs should be protected by laws similar to those that protect other kinds of original artistic creations, such as paintings or sculptures.⁹ Unfortunately, the United States lags woefully behind other countries in this regard.¹⁰

Counterfeiting and design piracy cost the U.S. economy between \$200 billion to \$250 billion per year, and counterfeit merchandise, as a whole, is responsible for the loss of 750,000 American jobs.¹¹ In addition, the annual sales of pirated and counterfeit goods total around \$600 billion, which is 5 percent to 7 percent of world trade, as estimated by the World Customs Organization. As a result, global sales lost to counterfeit goods are estimated at \$512 billion.¹²

If copyright protection were to be granted to fashion designs, such protection might not only prevent pirates from copying designs, but may also diminish the sales of counterfeit goods. Furthermore, it is believed that counterfeiting profits are used as sources of funds by international criminal organizations.¹³ "The Islamic Extremists linked to the World Trade Centre bombing in 1993 in New York reportedly raised cash for the outrage that caused death and millions of dollars worth of damage by selling counterfeit t-shirts."¹⁴

Most people think that buying an imitation handbag or wallet is harmless, a victimless crime. But the counterfeiting rackets are run by crime syndicates that also deal in narcotics, weapons, child prostitution, human trafficking and terrorism. Ronald K. Noble, the secretary general of Interpol, told the House of Representatives Committee on International Relations that profits from the sale of counterfeit goods have gone to groups associated with Hezbollah, the Shiite terrorist group, paramilitary organizations in Northern Ireland and FARC, the Revolutionary Armed Forces of Colombia.¹⁵

Such criminal profiteering and enormous losses within the world economy should bring change to the governing laws of the United States; however, until now, Congress has let the talents of multiple designers continue to be exploited. In 2006, U.S. Rep. Robert Goodlatte introduced the Design Piracy Prohibition Act (DPPA).¹⁶ In 2007, New York Sen. Charles Schumer introduced the same bill in the Senate, where it is still pending.¹⁷

This article follows the progression of protection offered for fashion designs within the United States. Part I discusses the attempts of fashion pioneers over the past century to establish protection for their designs, as well as the current status of protection offered to fashion designers, and the types of designs that merit protection. Part II discusses the intellectual property protection provided for fashion designs in other countries. Part III introduces and analyzes the proposed DPPA and the newly passed bill, the Enforcement of Intellectual Property Rights Act of 2008. Part IV involves the arguments for and against such intellectual property protection.

I. History

The United States has a long history of fashion piracy,¹⁸ dating back to the copying of textile patterns in the 19th Century.¹⁹ However, for numerous cultural reasons, U.S. intellectual property law has not developed in a similar manner to laws in other countries.²⁰ This is not due to a lack of effort or complacency by designers, but is the consequence of their inability to convince lawmakers to provide the same protections given to other articles of intellectual property.²¹ As a result, fashion designers have tried instead to combat this problem by creating their own procedures within their field.

In 1932, a group of American fashion manufacturers formed the Fashion Originators' Guild of America in order to monitor retailers and track original designs to prevent counterfeiting and design piracy. Garments of original designs in the 1930s, for example, contained labels reading "a registered original design with Fashion Originators' Guild."²² Retailers selling knockoffs were red-carded, and guild members would not sell their merchandise to red-carded stores.²³ This routine was not popular with the retailers, but it restrained copying. However, in 1941, the Supreme Court ruled that the manufacturers' arrangement violated anti-trust laws.²⁴

Another attempt was then made in the late 1950s and 1960s to provide protection for fashion designs. The National Committee for Effective Design Legislation tried to have enacted a special copyright law that offered limited protection to all types of ornamental and industrial designs.²⁵ However, legislative protection has never passed in both houses of Congress, even though more than 70 bills to give copyright or copyright-like protection to clothing designs have been considered.²⁶ Currently, knockoffs are widespread and legal.²⁷

In addition, failure to provide protection for fashion designs is not only attributed to Congress's failure to recognize fashion designs as a form of art, but also to Congress's concern about the consequences that may accompany such protection. These include the claim that imitations help the fashion industry develop, and that the pirates are doing the industry a favor by making these

designs affordable and more wearable for the public, since most American consumers would not be able to afford the original garment.²⁸ Although these concerns may have some merit, consequences that follow the practices of counterfeiting and design piracy still would not be outweighed by any negative outcome that may accompany the addition of protection.

Today in the United States, if fashion designers want to protect their work from pirates, they can look to trademark, trade-dress, patent, or copyright laws. Although these designers would not be able to find protection for their designs within these fields, they would be able to attain protection for their companies' logos and other distinctive marks as well as fabric patterns.²⁹

II. Intellectual Property Protections

Trademark Protection Under the Lanham Act

A trademark is a word, symbol, or phrase used to identify a particular manufacturer or seller's products and distinguish that product from the products of another.³⁰ Assuming that a trademark qualifies for protection, rights to a trademark can be acquired (1) by being the first to use the mark in commerce, or (2) by being the first to register the mark with the U.S. Patent and Trademark Office (PTO).³¹ As a result of such lenient requirements, trademark law is the most practicable source of protection for fashion designers today.³²

Trademark law provides strong protection for company logos and other distinctive marks, which identify the sources of the fashion designs.³³ The Second Circuit recently found that the color-design combination constituting a Louis Vuitton mark on its handbag collection qualified for trademark protection because it was both "inherently distinctive" and had "acquired secondary meaning."³⁴ Hence, if a Louis Vuitton bag was counterfeited, the copycat would be liable for trademark infringement. However, using trademark law to protect anything more than counterfeit items has proved to be nearly impossible.³⁵ This is due to the fact that it is legal to sell merchandise that copies the design and style of a product; however, it is against the law to sell goods that bear a counterfeit trademark.³⁶

The foregoing concept is presented in *Louis Vuitton Malletier v. Dooney & Bourke, Inc.*, in which the court held that the defendant's imitation of a Louis Vuitton bag design was legal because it was not subject to cause confusion among consumers and had not reduced the capacity of the design. Conversely, in New York City, counterfeit Louis Vuitton bags are often seized from sellers because they are counterfeit, and therefore, illegal.³⁷ Hence, this example shows how courts do not discriminate against design piracy, although they forbid counterfeiting.

Trade-dress Protection Under the Lanham Act

Trade-dress is a subset of trademark law.³⁸ The concept of trade dress, which formerly was limited to the packaging of a product,³⁹ now encompasses “the total image of a product and may include features such as size, shape, color or color combinations, texture, graphics, or even particular sales techniques.”⁴⁰ To recover for trade-dress infringement, the plaintiff must show that its design is nonfunctional and distinctive, and that the infringer’s design is likely to cause consumer confusion as to its source.⁴¹ Thus, while trademark law provides sufficient protection for fashion designers’ marks and logos, trademark and trade-dress law do not provide strong protection against knockoffs of overall clothing or accessory design.

In *Wal-Mart Stores, Inc. v. Samara Brothers, Inc.*, the Supreme Court held that a product’s design is distinctive, and therefore protectable, only upon a showing of secondary meaning.⁴² Similarly, in *Inwood Labs, Inc. v. Ives Lab, Inc.*, the Court held that designers must show “secondary meaning” that “in the minds of the public, the primary significance of a product feature or term is to identify the source of the product rather than the product itself.”⁴³

These holdings were applied in a recent case in which Louis Vuitton sued a small company named Haute Digity Dog, over a line of canine products called Chewy Vuiton.⁴⁴ The products are decorated with a pattern that resembles the famous Louis Vuitton logo.⁴⁵ In this case, the court held that due to the fact that the real Vuitton name, marks and dress are strong and recognizable, it is unlikely that a parody, particularly one involving a pet chew toy and bed, would be confused with the real product.⁴⁶

Patent

Similarly, patent law does not provide adequate protection of apparel. A patent is a set of exclusive rights granted by a state to an inventor for a limited period of time in exchange for a disclosure of an invention.⁴⁷ To obtain a patent, an invention must meet the following five requirements: patentable subject matter, utility, novelty, non-obviousness and description.⁴⁸

If a garment passes all of the requirements needed to obtain a patent, then it may be protected with a design patent or utility patent. The former patent protects the ornamental design, configuration, improved decorative appearance, or shape of an invention for 14 years.⁴⁹ This patent is appropriate when the basic product already exists in the marketplace and is not being improved upon in function, but only in style.⁵⁰ On the other hand, the latter patent protects any new invention or functional improvements on existing inventions and lasts for 20 years from the date of filing.⁵¹ In order to maintain the utility and design patents, the owner must pay maintenance fees to

the PTO, in addition to the filing, issue and attorneys’ fees for processing the application.⁵²

Hence, the high cost of maintaining a patent is not the only negative aspect of obtaining one. The process is also extremely time consuming. A “cautious estimate” of a patent-pending time span for a design is 26 months.⁵³ Since designs and patterns are usually short-lived, obtaining a patent for one becomes pointless, because by the time a manufacturer receives a patent for its item, the chances are that the item has already been imitated. Therefore, the world of fashion cannot make much use of the patent system.

In addition, even if an expedited patent statute were enacted, patents would still be of no use to fashion designers, due to the utility requirement. Since fashion designs are viewed as useful articles rather than utilitarian creations, fashion designs would be unlikely to meet the utility requirement. However, if fashion designs were to be viewed as utilitarian creations rather than useful articles, such a statute might be attainable and beneficial to the fashion world because it would provide protection for fashion designs similar to that proposed in the DPPA.

Copyright

On the other side of the spectrum is copyright law, which offers the most protection to fashion designs today, but is extremely limited. Currently, copyright law only grants protection to the designer or other owners of an original design of a “useful article” that makes the article’s appearance attractive or distinctive to the buying public.⁵⁴ However, the statute restricts the definition of a useful article to a “vessel hull, including a plug or mold.”⁵⁵

In 1998, Congress, as part of the Digital Millennium Copyright Act, enacted the Vessel Hull Design Protection Act, which provides limited protection to designs of vessel hulls.⁵⁶ “The Congressional Committee noted that protection for boat designers was important because consumers could possibly be defrauded because they might not receive the same quality that they would receive from a boat with an originally designed hull.”⁵⁷ Why not apply the same argument to fashion designs? Without copyright protection, counterfeit or pirated goods may defraud consumers of apparel, because the consumers might not receive the same quality of goods they would receive from the initial design. Some consumers who buy counterfeited goods may not be aware of the poor quality of the articles because they might assume that these items are merely stolen goods.⁵⁸ Therefore, Congress should revise the limited definition of useful articles and extend protection to fashion designs.

Currently, the Copyright Act defines “useful article” as “an article having an intrinsic utilitarian function that is not merely to portray the appearance of the article or to

convey information.”⁵⁹ Under the useful-article doctrine, designs can be protected “only if, and only to the extent that, such designs incorporate pictorial, graphic, or sculptural features that can be identified separately from, and are capable of existing independently of, the utilitarian aspects of the article.”⁶⁰ This doctrine reflects Congress’s attempt to prevent manufacturers from acquiring monopolies on designs based only on a product’s function.⁶¹

In portions of the Copyright Act of 1976, Congress tried to clarify the holding of *Mazer v. Stein*, that a statuette that formed the base of a lamp could receive copyright protection. Congress did this by enacting a separability test for distinguishing the artistic elements of an object from its utilitarian function.⁶² According to the “separability” test, “pictorial, graphic, or sculptural” features of a design may be copyrightable if those features are physically or conceptually separable from the useful features of the product.⁶³

Unfortunately, the vagueness of this test has led to inequitable results in many courts.⁶⁴ In 1978, the Washington, D.C., Circuit held that an object is not copyrightable if an intrinsic function of the object is utilitarian.⁶⁵ Additionally, in 1980, in a Second Circuit decision, the Court held that a designer could obtain a copyright for his belt-buckle design because the “primary ornamental aspect” of the buckles was “conceptually separable from their subsidiary utilitarian function.”⁶⁶

Within half a decade, the dissenting judge of another Second Circuit case, *Carol Barnhart, Inc. v. Economy Cover Corp.*, introduced a different separability test from the original one presented by Congress: “[F]or the design features to be ‘conceptually separate’ from the utilitarian aspects of the useful article that embodies the design, the article must stimulate in the mind of the beholder a concept that is separate from the concept evoked by its utilitarian function.”⁶⁷ The Second Circuit never adopted this test;⁶⁸ however, two years after *Carol Barnhart*, the Second Circuit yet again changed its test. According to the Court:

If design elements reflect a merger of aesthetic and functional considerations, the artistic aspects of a work cannot be said to be conceptually separable from the utilitarian elements. Conversely, where design elements can be identified as reflecting the designer’s artistic judgment exercised independently of functional influences, conceptual separability exists.⁶⁹

Although some aspects of clothing design, such as a particular fabric pattern or the lace and embroidery accents on a shirt, have passed the separability test without a problem,⁷⁰ copyright protection for fashion designs is still unavailable in the United States. In *Knitwaves, Inc. v. Lollytogs Ltd.*, the Court held that “fabric designs . . . are considered ‘writings’ for purposes of copyright law and

are accordingly protectible.”⁷¹ In addition, the Court in *Express, LLC v. Fetish Group, Inc.*, held that lace and embroidery accents that were totally irrelevant to the utilitarian functions of the manufacturer’s tunic were copyrightable.⁷² However, both of these cases upheld the status quo that clothing designs are not copyrightable and therefore are not offered any protection.

Protection of Fashion Designs in Other Countries

Protection for fashion designs, however, is available in most other countries that have strong fashion industries, such as France, Italy, and Great Britain. Similarly, other countries that are hardly recognized for fashion designs, such as India, have also provided intellectual property protection for their designers. Although these forms of protection have not eliminated counterfeiting or design piracy around the world, they have helped to avoid the kinds of losses that plague designers and the economy in the United States.

In Europe, fashion designs are afforded double protection under the National Laws of the individual European countries and the European Directive on the Legal Protection of Designs (EU Directive).⁷³ The EU Directive requires countries to enact laws to protect fashion designs under the guidance of its standards.⁷⁴ For a design to be protected, it must first be registered.⁷⁵ However, before the item can be registered, a design must display novelty and have individual character.⁷⁶ The novelty element requires that no identical design, including one that differs only in immaterial details, has been made public before the date of registration.⁷⁷ Furthermore, the individual character element requires that the design does not produce the same overall impression on an informed user as an already public design.⁷⁸ Once a design is registered, a registered owner has exclusive rights to the designs against even substantially similar ones.⁷⁹ The design registration is valid for 25 years in member states and includes the “lines, contours, colors, shape, texture and/or material” elements of the design.⁸⁰

National Laws of the Individual European Countries

France, the world’s fashion capital, has the strongest legal protection for fashion designs.⁸¹ French designers rely on the 1793 Copyright law, as amended in 1902, and the 1806 Industrial Design Law, as amended in 1909, to protect their designs.⁸² These acts provide the most liberal copyright protection to fashion designs under the “doctrine of the unity of art,” which forbids the exclusion of copyright protection solely on the basis of the work’s utilitarian function.⁸³

France offers protection for fashion designs by “providing copyright protection once the design becomes popular with the general public.”⁸⁴ When that occurs, French copyright holders receive both patrimonial and moral rights at the moment they create an original work, rather than at the point of public disclosure.⁸⁵ Patrimonial

rights incorporate “the exclusive rights to represent, reproduce, sell or otherwise exploit the copyrighted work of art and to derive a financial compensation therefrom.”⁸⁶ A moral right is “essentially the right for the author to see both his name and his work of art respected.”⁸⁷ This right passes to the author’s heirs or executor upon the author’s death, but may not be otherwise transferred or sold under any circumstances, by either the author or his legal successors.⁸⁸

Copyright infringers in France are subject to both civil suits for damages and criminal penalties, including up to three years in jail and a fine of 300,000 euros.⁸⁹ In 1994, Yves Saint Laurent (YSL) Couture sued Ralph Lauren for infringement under French copyright law,⁹⁰ in which the court found that a YSL women’s dinner-jacket dress, originally shown in 1970, then updated and returned to the runway in 1992, was sufficiently original to give the fashion house property rights in the design.⁹¹ The court also held that Ralph Lauren’s subsequent ready-to-wear dinner-jacket dress infringed the YSL design because the differences with the original were so slight that the average customer would not be able to distinguish them.⁹² YSL received a \$385,000 monetary judgment against Ralph Lauren for the latter’s “theft” of the original design.⁹³

In 2008, the French court found that a company known as Naf Naf was guilty of copying an Isabel Morant dress despite the minor differences between the designs.⁹⁴ The court ordered the “copycat” company to pay the designer 75,000 euros, which was approximately \$120,000.⁹⁵ These cases illustrate the severe punishments that were brought about by the French government due to the rise of design piracy.

Additionally, Italian copyright law extends protection to “works of industrial design displaying creative character and per se artistic value.”⁹⁶ It is much more stringent than the French because it requires not only registration, but also novelty and individual character.⁹⁷ Nonetheless, it provides some level of protection for fashion designers. In 1993, Italy enacted the “Made in Italy” legislation to guarantee that only items made in the country may bear the label. It also created additional laws that fine consumers several times the retail price of the original item for buying copied goods.⁹⁸

Furthermore, Great Britain is another European country that provides stringent protection for fashion designs. This protection applies to artistic works, unregistered design rights, and registered design rights.⁹⁹ The unregistered designs receive three years and the registered designs receive up to 25 years of protection.¹⁰⁰ Under this scheme, a fashion design is granted copyright protection as long as it can be referenced back to a copyrighted drawing.¹⁰¹ “Infringement of a design right is determined by whether or not the second article, even if still in pieces not yet assembled, is an exact copy or substantially dif-

ferent from the original.”¹⁰² According to the intellectual property law of Great Britain, if a design is copied, the designer is entitled to damages and injunctions similar to that of owners of other types of intellectual property.¹⁰³

Nevertheless, protection provided for fashion designs in the countries previously discussed is irrelevant once the apparel reaches the United States, because this country stands as one of the few with an intellectual property law regime that does not protect fashion works.¹⁰⁴ As a result, fashion designers all over the world are affected negatively by this insufficiency.

TRIPS Agreement

In 1994, the United States and other members of the World Trade Organization (WTO) signed the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS Agreement).¹⁰⁵ The TRIPS Agreement was created to make international intellectual property rights uniform by setting a minimum level of protection that each country must provide.¹⁰⁶ The Agreement’s provision on design rights, Article 25(2), states:

Each Member shall ensure that requirements for securing protection for textile designs, in particular in regard to any cost, examination or publication, do not unreasonably impair the opportunity to seek and obtain such protection. Members shall be free to meet this obligation through industrial design law or through copyright law.¹⁰⁷

However, the United States has not met its obligation through either.

III. The Design Piracy Prohibition Act

Because there is minimal protection for fashion in the U.S., many designers face what are often impossible obstacles in obtaining protection for their designs.¹⁰⁸ The lack of legal protection that is offered for fashion designs is greatly reflected in the fashion industry, in which there is a considerable amount of copying.¹⁰⁹ Due to these inequitable dealings, the DPPA was introduced.¹¹⁰

The DPPA intends to extend copyright protection to fashion designs. Under this proposed bill, a fashion design is defined as “the appearance as a whole of an article of apparel, including its ornamentation.”¹¹¹ In addition, the DPPA would “extend the definition of infringing article to include the design of any article that has been copied from an image of a protected design without the consent of the owner.”¹¹² If the DPPA is enacted, it would “prevent anyone from copying original clothing designs in the United States and give designers the exclusive right to make, import, distribute, and sell clothes based on their designs.”¹¹³ Courts would be able to provide this protection through the DPPA by “applying the doctrines of secondary infringement and secondary liability to actions

related to original designs.”¹¹⁴ These doctrines “provide an effective means of enforcement by placing liability on those who are benefiting from the infringement and are in a position to control or restrain it.”¹¹⁵

Furthermore, the fashion designs included under the DPPA would not only encompass outer garments, but also would include gloves, underwear, footwear, headgear, handbags, purses, tote bags, belts, and eyeglasses. However, the bill would exclude designs that have been in existence for more than three months before an application for copyright protection was filed and would limit available protection to a maximum of three years.¹¹⁶ Under this protection designers can seek recovery in the form of statutory damages totalling \$250,000 or \$5 per copy.¹¹⁷ In addition, similar to other copyright protected articles, infringement would not be imposed on independently created fashion designs.¹¹⁸

Although this proposed bill offers protection to fashion designs, it lacks certain elements that are important in decreasing the widespread acts of design piracy and counterfeiting. The DPPA should further include a regulation that imposes a fine on consumers of copied goods. Such a harsh law would cause many consumers to think twice before purchasing pirated items. In addition, the bill should also include a provision that mandates that pirates pay the original designer a fee for using the design after the proposed copyright protection expires. This type of law would reimburse the designers for their hard work and would discourage pirates from copying designs. Accordingly, if the DPPA were to include the foregoing proposals, it would provide stronger protection against design piracy as well as dissuading counterfeiting.

Recently Approved Bill

In October 2008, the Enforcement of Intellectual Property Rights Act of 2008 (the Act), a “companion bill” to the DPPA, became law. The purpose of this piece of legislation was to enhance remedies for violations of intellectual property laws.¹¹⁹ The Act amends federal copyright law to: (1) authorize, in lieu of a criminal action, civil copyright enforcement by the Attorney General; (2) provide that copyright registration requirements apply to civil infringement actions, and (3) provide a safe harbor for copyright registrations that contain inaccurate information.¹²⁰ This act also amends the Trademark Act to: (1) revise treble damages provisions and double statutory damages in counterfeiting cases, and (2) prohibit the transshipment and exportation of goods bearing infringing marks.¹²¹ This bill gives our government the additional tools that it needs to protect intellectual property by enhancing the civil and criminal penalties for intellectual property violations, which discourages criminal organizations from entering the business of counterfeiting and piracy.¹²²

The Act helps the fashion world deter pirates by increasing the penalties for violations of the articles that

were already protected under existing intellectual property laws, such as marks and logos of designs. However, it does not add further protection to fashion designs because they are not protected under current law.

Then again, the Act does provide hope for fashion designers within the United States. If Congress passes the DPPA in the same manner in which it passed the Act, designers will not have to worry about copycats stealing their hard work. Most designers put in long hours to earn their salaries. A designer typically requires 18 to 24 months to take a design from beginning sketches to final manufacture.¹²³ After such long periods of dedication, “a designer can have the fruits of her labor stolen in a flash.”¹²⁴

IV. Arguments Against Protection for Fashion Designs

Although many feel that protection for fashion designs is necessary, some scholars in the United States argue that the framework of free copying in this country actually benefits the fashion industry as a whole more than do the stricter laws in Europe.¹²⁵ In a recent article, Professors Kal Raustiala and Christopher Sprigman argue that copying in the fashion industry does not impose on creativity and may, in fact, produce greater innovation among designers.¹²⁶ They note that the fashion industry stays stable in “low-IP equilibrium” and suggest that this stability is the outcome of two connected features of the industry: “induced obsolescence” and “anchoring.”¹²⁷ Induced obsolescence is the phenomenon by which trends become distasteful to their initial, wealthy customers, while knockoffs of these trends “diffuse to a broader clientele” at cheaper prices.¹²⁸ Widespread copying forces the upscale fashion designers to create more new designs as the trend-of-the-moment becomes outdated.¹²⁹ For this reason, the authors argue that design piracy actually works in designers’ favor “by inducing more rapid turnover and additional sales.”¹³⁰

Another Professor, James Duesenberry, noted that the urge to acquire the prestige benefits earned by imitating the prevailing standard of living drives middle-class consumption behavior, which therefore is based not on the satisfaction of intrinsic wants but on wants generated as a result of observing the purchasing behavior of other consumers.¹³¹

However, even if these arguments are legitimate, they do not solve the primary problem, which is that “pirates cash in on others’ efforts and prevent designers in our country from reaping a fair return on their creative investments.”¹³² At the end of the day, in most cases, these copycats cause more damage to designers than anticipated. Or to put it another way: “Because these knockoffs are usually of such poor quality, these reproductions not only

steal the designer's profits, but also damage his or her reputation."¹³³ Due to these unfair consequences, counterfeiting and design piracy must be diminished.

Conclusion

Although Congress has not enacted protection for fashion designs, such developments seem close in reach. Modern-day fashion design has been increasingly perceived as art. In 2002, artist Takashi Murakami collaborated with designer Marc Jacobs to design four handbags and accessory collections for Louis Vuitton.¹³⁴ The designs made for the Louis Vuitton collection are works of art and should be granted protection because designing is art as much as is painting.

In addition, the popularity and frequency of collaborations between museums and designers further support the notion of fashion design as a form of art. In 2001, the Metropolitan Museum of Art (the Met) displayed more than 80 items of clothing and accessories representing the fashion of First Lady Jacqueline Kennedy.¹³⁵ The Met also has a permanent collection in its Costume Institute of more than 75,000 costumes and accessories from seven centuries and five continents.¹³⁶ Furthermore, museums dedicated to fashion have emerged in cities such as London, England and Kobe, Japan.¹³⁷ The growth of fashion in museums demonstrates that fashion designs are a form of art. Museums in general are known as "places where works of art, scientific specimens, or other objects of permanent value are kept and displayed."¹³⁸ Since apparel is not a scientific specimen or an article of permanent value, it must be a work of art.

Endnotes

1. Fashion Quotes, <http://thinkexist.com/quotations/fashion/>.
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Biana Borukhovich is a painter, poet and writer who is working her way through law school in order to attain her dream career, which, she hopes, will combine fashion and law. Biana was born in Odessa, Ukraine in 1984 and moved to the United States with her family in 1991 to escape the anti-Semitism movement in the former USSR and to obtain a life full of choices. Biana's interest in the rights of fashion designers arose from watching her mother and grandmother toil in the fashion industry. As a result, Biana grew to have a genuine appreciation for the fashion field and the talents that contribute to this field.

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WELCOMING REMARKS

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KENNETH M. SWEZEY, ESQ.
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PROGRAM INTRODUCTION

Program Co-Chair
TRACEY P. GRECO, ESQ.
dELIA*S, Inc.
New York City

**Running Away With Runway Designs . . . Should Knock-Offs Be Knocked Out?
Debating the Design Piracy Prohibition Act**

MODERATOR:
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KURT COURTNEY
Manager of Government Relations
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Footwear Association
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(Historical materials provided by Susan Scafidi,
Visiting Professor of Law, Fordham Law School)

Film Tax Credits: The Reel Way to Lure Hollywood Out of Hollywood

MODERATOR:
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MR. SWEZEY: We have two great panels today, one on fashion and one on film, and we're going to get started with that in just a couple of minutes. We've got a few preliminary words and thoughts and a couple of preliminary speakers, and then we'll get into the content of the CLE program.

So the first thing that I wanted to say on behalf of the entire Executive Committee is that we are very fortunate and grateful to have Tracey Greco and her co-chair, Joyce Dollinger, both working so hard for our Section, putting together programs like today. And so none of this could be done without Tracey, so, Tracey, thank you.

The Entertainment, Arts and Sports Law Section is a very active and growing Section of the State Bar. If any of you out there in the audience are not members, it's a great value. It's a great bunch of people, and I really want to urge you to think about joining our Section, and if you're in our Section, to hope that you participate more. Just some of the upcoming events we've got in the next few months, we've got a VLA co-sponsored program on "Nuts and Bolts of Entertainment Law Litigation." We've got a program on "Advertising and Gains, Emerging Issues." We've got a program on "Electronic Filing of Form D for the Film and Theatre Limited Partnership Filings." We've got a "Trademark Law Fundamentals." We've got an ADR program. We've got a "State of Art." We have got a lot going on, so I really hope that everyone here who isn't a member thinks about joining, and I think that you're going to find it full of value.

I have two speakers before our program starts. We're very pleased to have a representative from the New York Bar Foundation, Susan Lindenaue, who's here. She's going to give us some brief comments. This is an important program, and through our own pro bono activities, we have a very active Pro Bono Committee within EASL, but it's important that we reach out to people in need of legal assistance and legal help. And we all know in 2009, it's a tough year, and this is a time for the Bar to even try to do more. So Susan is going to give us some brief comments on what the Foundation is doing.

MS. LINDENAUER: Thank you, Ken. I want to thank Ken and the officers of EASL for setting aside a few minutes to hear from me about the Bar Foundation.

As I think many of you know, the New York Bar Foundation is the charitable arm of the State Bar and is dedicated to aiding charitable and educational projects to meet the law-related needs of the public and the legal profession. In 2008, we awarded more than 50 grants to nonprofits, bar associations, and other organizations for law-related projects. Some of the projects that we funded, and we've provided seed money for things, including civil legal services to the indigent, assistance and support for those in re-entry programs, information about legal rights to disabled veterans through a video series,

training for volunteer advocates for children in the family court, and many others equally as important. We have had a positive impact on the lives of people and families throughout the state.

The Foundation also provides support to future lawyers by awarding scholarships and fellowships to students attending law schools in New York. The Commercial and Federal Litigation Minority Fellowship is one example of that. The Foundation also has recently renamed its youth court fund in honor of our recently retired Chief Court Judge Judith S. Kaye, and we're embarking upon a campaign to raise funds to provide grants to support the activities of the youth courts in New York State. The youth courts are the fastest-growing juvenile intervention program in the country, and they serve as an alternative to criminal justice prosecution for young people who have committed relatively minor offenses. Several weeks ago, the State Bar Elder Law Section established a fund through the Foundation to provide scholarships for students participating in elder law clinics in New York State. We have many programs of these sort that are set up by either individuals, law firms, or sections of the State Bar that have a significant amount of funds that are not being used for other purposes, and we always encourage a section that has extra funds to think about establishing a fund for purposes of this sort within the context of the Bar Foundation.

In addition, we have funds that are set up in memory of prominent lawyers who either have retired, as is the case of Judge Kaye, our jurist, or who have died. The Foundation established a Lorraine Power Tharp endowment fund in November to honor the memory of this former State Bar president and who was treasurer of the Foundation at the time of her death.

Now, why am I talking to you about all of this today? Well, for one, I ask that you please decide to add the \$25 voluntary contribution to the Foundation when you renew your annual dues, the State Bar dues, and we ask that you consider, if you can, and I know that is a difficult thing at these times, to make additional contributions to the Bar Foundation, either online at www.tnybf.org, or through the mail, and the address of the Bar Foundation is the same as the address of the State Bar.

Gifts to the Foundation may include cash or appreciated assets, if any of us have those at this point, or bequests in a will. Your contributions to the Foundation are tax deductible, and we welcome any support that you might provide because we do play a role throughout the state in every part of the state in providing seed money for worthy programs that assist the people of New York State.

I thank you for your time, and please do make a contribution at least at the time that you renew your dues. Thank you.

MR. SWEZEY: Thank you for those comments, Susan. The next preliminary is what's an annual tradition now, which is the Phil Cowan Memorial/BMI Scholarship. Phil, as many of you know, was the late founder of our firm, and we're always pleased and honored that the State Bar has continued his memory in conjunction with BMI. And so Judith Bresler and Gary Roth are going to present the scholarship award winners. We had some great submissions, and they'll tell you more about it.

MS. BRESLER: Thanks, Ken. The Phil Cowan Memorial Scholarship was created, as Ken said, in memory of Phil Cowan, who was a former Section Chair who had died precipitously of brain cancer a few years ago, and to honor his memory, we set up a scholarship based on a writing competition, where students write on the subject of either entertainment, arts, sports law, or copyright law—subjects dear to Phil's heart. And it is open to all accredited law schools in New York State, plus a number of other law schools selected on a yearly basis by BMI. And Gary and I must tell you that every year the submissions have been getting better and better—really sophisticated, wonderful submissions—and it is our pleasure to announce the winners this year. The first one is "Taking a Mulligan: Moral Rights and the Art of Golf Court Design" by Ryan Steinman.¹ Ryan, are you here? Come on up.



MS. BRESLER: Ryan is a law student at New York Law School, class of 2009, where he serves as Article Editor for the *New York Law School Law Review*, and as a John Marshall Harlan scholar affiliated with the Institution

for Information and Law and Policy. Prior to law school, Steinman received a Bachelor of Musical Arts from the University of Michigan, a Master of Science from Boston University, and worked for Carnegie Hall. Steinman will join O'Melveny and Myers in New York in the fall. Ryan, congratulations on a quirky, original, thoughtful, and fabulous paper.

MR. ROTH: And I get to give the second scholarship. Before I do, I just want to say that BMI is so pleased to be able to partner with EASL in the presentation of these scholarships. For those of you who are not familiar with us, we are the world's largest performing rights organization, representing songwriters and publishers in the licensing of their performing rights to music users and the payment of royalties to them for performances of their works. And in that capacity, while sometimes we get papers having to do with music, that certainly is never a criterion; but be that as it may, we are a strong advocate of the entertainment and copyright communities, so we felt it was perfectly suited to our mission to be involved in this competition.

And as Judith said, every year, the papers get better, and the scope of schools involved gets wider. So kudos to everybody who participates.

And our second scholarship goes to Bryan Georgiady, and, Bryan, are you here? Come on up.

MR. ROTH:

Bryan's paper was entitled "Fair Use and YouTube, Adapting Copyright Enforcement to the Burgeoning Volume of Transformative User-Generated Content."² He needed a half a page just for the title, that's right. But everybody who read it said it was a terrific paper. And these papers, by the way, will be published in a future issue of the *EASL Journal* so you will be able to read them. (See pp. 78 and 92 of this issue).



Bryan is currently a third-year law student at Syracuse College of Law. He's a graduate of the University of Chicago with a degree in Biology. He worked for a government consulting firm in Washington. At Syracuse, he's a member of the Law Review, and he has argued on six different moot court teams. He is interested in litigation and he stated in his biography that he'd love to be able to join a law firm with a strong entertainment practice, so hint, hint for anybody who may meet Bryan. Bryan, congratulations.

MR. SWEZEY: Okay, thank you, Judith and Gary. And now, I'm going to turn things over for the program to Tracey Greco, and she will introduce the first panel. Tracey.

Panel I.

Running Away with Runway Designs . . . Should Knock-Offs Be Knocked Out? Debating the Design Piracy Prohibition Act

MS. GRECO: Good afternoon, and thank you all for coming today. We have two wonderful panels I'm sure you will enjoy.

I would now like to introduce our first panel, starting with our moderator, Steve Weinberg. Steve has over 25 years of law experience. He's West Coast Counsel to Cowan, DeBaets, Abrahams & Sheppard. Steve is admitted to practice in New York, California and Arizona. His practice today consists of counseling, transactions and litigations primarily in branding and trademarks, copyright, entertainment and branded entertainment, licensing and merchandising, advertising and direct marketing, and software and online businesses and deals.

Next, we have Alain Coblenz. Alain is an international corporate lawyer and a member of both the New

York and Paris Bars since 1975. He's with Coblenz & Associates. He's the proponent of a reform of the United States Copyright Law introduced on the floor of Congress in March of 2006.

Next to Alain we have Kurt Courtney. Kurt currently serves as Manager of Government Relations for the American Apparel & Footwear Association. The AAFA is a national trade association representing apparel and footwear companies and their suppliers. He's responsible for representing the association and its members before Congress and the administration on government contracts, defense, intellectual property, transportation, labor, trade, tax and other issues.



Next to Kurt we have Arlana Cohen. Arlana has 25 years of experience in all aspects of trademark law, including associated marketing law and related patent issues. Arlana is with the firm Cowan, Liebowitz & Latman. She focuses on brand name and product development, licensing, anti-counterfeiting actions on an international scale, trademark prosecution in the U.S. Patent and Trademark Office, opposition and cancellation actions before the Trademark Trial and Appeals Board, and litigation before the various U.S. district and appellate courts.

Without further delay, I will introduce Steve to come up and get our panel started. Enjoy.

MR. WEINBERG: Thanks, Tracey. It was great to see somebody winning an award for a golf course design, because I did spend a little time in Arizona, and which is essentially, you know, people and golf courses. And I'm sure that there is going to be a new surging practice there. Although my wife's joke about me is I was a perfect person to move to Arizona, because if you give me a club and a ball, I'll find water. And that, unfortunately, is true, so getting close to a golf course is probably not something you're going to see happening.

We, unfortunately, do not have one of our panelists here today who is with Fordham Law School. Susan, unfortunately, got sick, and that meant that we've had to scramble a little bit to fill in her part; although we're not going to quite do that justice, but we'll give it as good a shot as we can.

Can I get a sense of how many people here are copyright practitioners? Okay. And how many people here are involved one way or the other with fashion? And how many people here are hoping to stay awake for the next two hours? Okay, great, good. What we're going to cover today is not so much pending bills because pending bills,

particularly now that they're no longer pending, are no longer the subject of immediacy, although there will be new bills probably introduced in the upcoming legislative sessions.

What we are going to talk about today is why should fashion be protected, should fashion be protected, and, if so, what are the ways that we might go ahead and do that. And this has been a challenge since the 1700s. It's always been part of the fabric, if you will, of America, as well as most of the world. And we have diverse views on that issue here on the panel today, and what we're going to try to do is explore, not only the copyright, potential copyright protection for fashion, but other forms of property as well. And it's interesting that Tracey asked me to moderate because my own history is kind of odd. On the one hand, I have been a strong proponent of owners' rights in my practice, but I come from a long line of garmentos who made their living on Seventh Avenue and Broadway. And so my legal education was paid by one side of this argument, and my child's education is being paid by the other. So it's kind of an interesting diversity, so I'm going to be about as neutral as one can be in the discussion today, although from time to time, I may slip.



When we talk about the fashion—the protection of fashion—what we're really talking about is the protection of fashion silhouette, fashion as sculpture or artistic—some form of artistic form, as opposed to textile protection or the design of textiles. Design of textiles has historically been

protected in the United States, and, in fact, very much so here, and Federal District and the Second Circuit protect the design of textiles quite rigorously.

There was a case, I think, in the '70s—Peter Pan Fabrics case, in which a 36-inch repeat of the Mona Lisa in sepia was held protectable by the—I think by the Second Circuit. And although the breadth of that protection has been narrowed over the years, nonetheless, there is extraordinarily broad protection, so much so that when I was actively practicing in my early days in Manhattan, representing at the time a lot of retailers, we would constantly see people who created textile designs getting ex parte temporary restraining orders against major retail chains because the law of textile design protection was so strong.

Contrasted against that, we have the issue of fashion silhouette. And fashion, by the way, is not the only area of the law that has this odd dichotomy.

I was very active in—as a co-author, in fact, of the Architectural Works Amendment, and the issue there was

architectural plans had always been protected, but the three-dimensional rendition of those designs were not. And the Frank Lloyd Wright Institute and Michael Graves and a number of leading architects really wanted to get protection for the three-dimensional design, particularly during the '80s and early '90s as those hedge fund managers were starting to put together their wealth and were building mega mansions and giving architects freedom to create new and original designs.

Interestingly enough, the Architectural Works Amendment was not intended to protect architecture. Ultimately, it was to protect furniture design, which is the other area that's given—that is really stuck in the middle here.

There are the estates of the great designers, McIntosh, Corbusier, Frank Lloyd Wright and others, who not only created architecture but created these wonderful fashion designs, and if you look in any *Architectural Digest* or any magazine today or walk along Madison Avenue, you'll see some extraordinary works of art which are furniture. And, unfortunately in the United States, they're not protected. Although Europe does protect them and sometimes one will find oneself litigating in Germany or France, for example. And we're going to explore all that, so I'm just opening this up as an introduction.

So fashion is just one of those industries, and a significant one, obviously, especially now in the world of celebrity, you know, where *In Style* magazine has become the bible, right; so, you know, "what she is wearing is what everyone should be wearing." And I live in Malibu, you know, so I'm in the—in sort of the monster center of the universe for this craziness and one sees it all the time.

Hollywood people, the young people, my daughter's a teen; she's experiencing all of that as well. And so what happens is, since fashion has become so much part of what's important today and people creating identity for themselves and persona for themselves, it has really gotten to sort of an exalted place on the copyright spectrum.

So what I'm going to do now is give you a little bit of what Susan was going to talk about and give you some history.

The earliest protection . . . and I'm basically just reading from her notes, so I'll do my best to keep it interesting. Essentially, the seasonal presentation of Haute Couture began with Charles Worth, a designer in Paris in the 1850s. And when knock-offs, as we call them, or reproductions of those designs being more neutral starting cropping up, the designers found legal protection in the French Copyright Law of 1793, which was later amended, as well as the law of industrial design, which is interesting because those are two very different bodies of law.

In the United States, for example, industrial design is treated very differently than copyright, and we'll be

exploring those, too. But the French designers, like Coco Chanel and others, found refuge in laws of the 1793 copyright law as well as the law of industrial design protection. And one can see that because fashion has always been sort of a home industry to France and an important one. And so as a matter of public policy, there was viewed of a need to protect it, and Arlana is going to explore this in more detail in a few minutes.

The United States has not followed that track, and there have been various attempts over the years to protect fashion. There was an attempt using the patent laws back in 1842 with design patents, but that really didn't work. And interestingly enough, a lot of the original protection was sought for textile designs, weaves, like linen and cotton and some of the earliest "fashion" that was protected with the actual textile weaves, which would now be more the subject of patent law.

In 1882, with the denial of patent to a silk manufacturing firm, there were a lot of lobbyists that got involved and, essentially, there was a call for the copyright law even back then to be amended, and that didn't happen, except with a law that was intended to get European designers to send their couture here to America for the Panama Pacific International Exhibition, because European designers were concerned that if they sent their protected designs here, they'd be ripped off during the World's Fair. So that was very limited in time.

Then as we've seen in other groups, like the software industry over the years, what we have seen is the formation of guilds, like the Screen Actor's Guild and others—a guild for the protection of fashion design called the Fashion Originator's Guild of America, which was started in 1932.

And since copyright was not something that people could avail themselves of, designers were encouraged to then file their designs with a guild, and a series of arbitrations and retail of strikes and so forth were encouraged. And what happened—and that was gaining some momentum until the 1940s when the FTC decided that it was against fair trade and the Supreme Court affirmed that decision.

In the 1950s, we saw the beginning of the concept of conceptual separability. That was in *Mazer v. Stein*,³ which, if you're a copyright practitioner, is sort of the grand case, the granddaddy case. Giving rise to forms and basic works of art may not be protectable, but they can be if they get into a new realm. And *Mazer v. Stein* involved decorative lamps, if you recall, and the language that came out of *Mazer v. Stein* was that works of artistic craftsmanship, such as artistic jewelry, could, in fact, be protected. And we have seen over the years that that has come a little bit more forward with the *Kieselstein-Cord* case⁴ and others like that. In *Kieselstein-Cord*, there was a belt buckle that was very sculptural in nature and that was protected under copyright law.

There was in the 1950s and the 1960s the National Committee for Effective Design Legislation, which, again, attempted to protect fashion design. But the interest of the retail merchandisers associations and others and, of course, in this country the concept of competition, which is probably more robust than it is in other countries, resulted in no protection for fashion design, which ultimately then led to some of the pending bills and the interest in all of this today.

So with that behind us, I'm going to turn over to Alain and ask Alain, what are the pros and cons from the perspective of the people that you represent, Alain? What interests are they trying to protect?



MR. COBLENCZ:

Thank you very much. Before I answer that question, I just would like to put a little bit of perspective on the history that you recounted.

One has to remember that the United States, until about 15, maybe 20 years ago, was a country

which had a fashion industry which relied exclusively on copying what is happening in Europe. It was done in a very systematic way, in a very organized and equitable way in the sense that royalties were paid. I mean when I started in this business in the '70s representing Yves Saint Laurent, the largest licensee of Yves Saint Laurent in the United States was *McCall's*, selling patterns.

So you have to think that, you know, it's basically the world on its head after the emergence of American designers. American fashion today is probably the most thriving in the world. The Fashion Week that is going to take place at Bryant Park has twice as many participants as the one that will follow in Paris. So I think this is a factor, and I just wanted to mention that.

MR. WEINBERG: And that's right. I mean fashion has really taken the forefront. And it's interesting that you bring that up because I remember early on in my career, the issue came up when Adobe came—started creating font software, whether or not fonts were protectable by copyright because for years, and this was a shock to me, I always thought that fonts were, in fact, protected by copyright because they were viewed artistically around the world, yet we did discover that the copyright did not protect fonts back then. But what was protected was publishers' desire to give due to the artisans who created the fonts. But once software took over, that pretty much ended that except for protecting the software that embedded fonts.

Kurt, do you want to add anything to that, too, to the history before we get back to Alain?

MR. COURTNEY: I think that's a good historical way to put it.

MR. WEINBERG: Okay. So, Alain—

MR. COURTNEY: And you're talking about a legal history, and for the record, I'm probably one person in here who's not a lawyer, so I'm probably not going to talk too much about the legal stuff, but—I don't know if you wanted to say something about the legal history about it or—

MR. WEINBERG: No, not yet then. We'll get back to that. As you see, we've rehearsed this to the nth degree.

MR. COURTNEY: And many phone calls.

MR. WEINBERG: Right, many calls, but this is the dry run. Alain, why don't we get back to the—

MR. COURTNEY: Well, our historian is not here, so—

MR. WEINBERG: That's true, right.

MR. COBLENCZ: What interests are we trying to protect in promoting this fashion design protection bill? Well, you know, first of all, I mean garment designs feature, in our mind, as much artistic creative expression as any other form of visual art. As a matter of fact, it is sort of shocking to me that the design of a fabric can be protected by copyright, but the design of the dress that is using the fabric cannot.

Or if you want to take another example, that the most sophisticated fashion design is in the public domain, while any design of jewelry is protectable by copyright. There's something slightly illogical about all of this.

There's no question that fashion design corresponds to the Copyright Act definition of original works of authorship fixed in a tangible medium of expression.

So who do we try to protect by promoting this bill? Well, first of all, the designer. The designer whose creation is today in the United States allowed to be openly and systematically stolen. Piracy is—most important to me is that piracy is depriving the designer from the foundation on which all successful fashion business is built, which is the designer's brand identity, the designer's brand DNA.

If you examine the careers of truly cutting-edge fashion designers in the history of U.S. fashion, so many had their careers destroyed by knock-offs and plagiarism. Today, up-and-coming designer is a profession where you are kept from making your designs known because you fear being knocked off and having your young career wiped out before your name can emerge on the market.

Second, we want to protect the interest of the public. Essentially, the public is being duped by the pirates, and the public is entitled to have access to a reasonably priced line of fashion products without having to buy a fake.

We want to protect the interest of the industry, an industry which is steadily losing sales of legitimate products and, thereby, the means of recouping the enormous cost of the design studio, which is the research and development for that industry. The industry in which innovation and competitiveness is being eroded by the import of cheap knock-offs from Asia. And an industry which cannot survive and cannot preserve its jobs when cheap knock-offs are being imported from China at one-tenth of the price of the original and sold even before the original American design reaches the stores.

Finally, we want to protect the U.S. economy, the U.S. trade. At a time when the industry is shrinking, it is even more crucial to preserve it. This legislation is a sort of stimulus for the industry and responding to its need.

When a globalized economy requires harmonized legislation, the U.S. is at a disadvantage because it is the only industrialized nation, the only one except for some countries in the Far East, like China, that does not protect its creations.

I was recently in India, and on the front page of the [indiscernible] *Times* was the decision of the Supreme Court of India protecting the fashion designs of one of the Indian designers against a knock-off company in Bombay.

This, in the United States, is even worse today after the evolution of the quotas and at a time when the Chinese imports of textiles have been raised by triple digits.

So these are the interests that we wish to protect; the designers, the public, the industry, and the U.S. economy.

MR. WEINBERG: It's interesting to hear that because here again, I get into my area of neutrality. You know, post-law school, that's a position I understand with and harmonize with. But then again, looking back in my past, thinking of my dad as a pirate is a kind of a scary thought. Whether or not he was doing knock-offs, I have no idea, frankly. I have no idea, but he was making dresses and they probably were coming from somewhere.

Now what I'd like to do, though, is turn to Kurt. Before I turn to Kurt, though, with his opposite view, I do want to point to what's on the screen. From the copyright perspective, what this issue is about is this, and that's pictorial, graphic, and sculptural works, which fashion design is considered.

It's protectable as long as it's not considered to be a useful article. A useful article, as you can see, is an article having intrinsic utilitarian function, not merely to portray the appearance of the article or to convey information.

So a fashion, a design of a dress is a useful article because it clothes one. Architecture was considered a useful article, three-dimensional design of architecture, because it performed the function of housing one; it was a house. The same with furniture—the design, the function it performs is one of furniture.

And so the issue that was raised in *Mazer v. Stein*, which was the separability concept, is this: There will be protection for useful articles that are pictorial, graphic, or sculptural works if one can separate from that design an either conceptual difference or a physical difference, and here's what I mean.

If you look at the back of a chair and if the chair has a design—an original design that's carved into it or painted into it—that design is physically separable, okay. The *Kieselstein-Cord* belt buckle, because of its highly sculptural nature, could be taken off the belt and viewed as a work of art.

The issue that we're all struggling with is in the areas of fashion and in the areas of furniture, and some of these areas, other areas, the original works, the Haute Couture, the high end of these things, are really considered to be works of art by people within the industry and by collectors. And so the argument then becomes, well, is it conceptually separable, the argument that the world—most of the world makes, and that Alain is making is yes, in fact, they are conceptually separable from a copyright perspective and should be protected for that aspect.

But as we all know from what led to the change of the Copyright Law in 1976, the Copyright Law is not necessarily built on logic; it's built on lobbying. It's built on competing interests that found a way to create, and continues to create, changes in that law, which we'll explore a little bit later on. And that's why the answer is not always one of, as you heard Alain say, one of copyright; it's a matter of various interests.

And, Kurt, the same question, how does protection of fashion, at least the way it's been presented, have an effect on commerce and some of the people that you represent?



MR. COURTNEY: Well, again, I represent companies who make and sew clothing, so when we're looking at a law like this, obviously, intellectual properties and the protection of it is very important to us. You know, we do our best to do things, and as Alain pointed out, some of the piracy problems

we're facing aren't happening here; they're happening abroad. And so the proposals that have been made, in my opinion, don't really affect what happens abroad. It's what happens here; it's what's sold here. And so, you know, that's one problem. And as we're looking at this from a company aspect, we're looking at it from a point of view of compliance. And how do we, A) make sure that what we're making is actually original and deserves protection, and, B) how do we make something that's not infringing on something that's already protected?

So—and with the Copyright Office, as one proposal at this point in time, we see a lot of problems with that given the fact that there's no test for examination; there's no way to tell is this actually original. By just putting something here, guess what, copyright it, and that's basically what it is.

And so we've always had trouble with compliance, and we don't want to create a situation where two legitimate companies find themselves in court on the jury question, a jury of people who probably don't understand the differences between fashion. I'm sitting up here and I probably couldn't tell you the differences between two different designs and I'm in the industry, sort of, I guess you can say. I'm a lobbyist, so please let's not try to do too much about lobbying. So I think, you know, I think there's a lot of cons there that we have a problem with. The opportunity for legal intimidation upon smaller designers who can't afford the legal counsel to defend their probably original designs in court.

So—and what's going to happen is you're going to find a situation where people will just end up settling and settling and settling, which, in my opinion, does nothing for young designers who are trying to make it, who are trying to create something new and original. But I think our goals would be the same.

I mean, obviously, I would love to find a way to offer meaningful protection for something that's truly novel. I just—I don't know the answer to that yet, so if we're here at all to discover it, I want to get into all your legal minds and see if you have any ideas. But certainly, that's the problem from a company aspect where we see the issue with this sort of proposal.

MR. WEINBERG: I'm going to turn to Arlana in a second, but just so it's clear—Kurt, when we use the word “novel,” that's sort of a legal word that relates to patent law, which Arlana is going to talk about later on. So it's interesting because I know in architectural works, we talked a lot about “unique,” “distinctive,” as you'll see in trademark law. There are a lot of these words that get bandied about, and it's tough to know what is going to meet those requirements.

MR. COURTNEY: For the duration of today, I'll be speaking in English and not legalese.

MR. WEINBERG: Okay.

MR. COURTNEY: I apologize.

MR. WEINBERG: Well, I just wanted to make sure that somewhere, someone wasn't quoting you incorrectly. So—and, unfortunately, I deal with paparazzi and those types, so I know how much that can happen. Okay. So, Arlana, what—I saw you shaking your head a lot during this last presentation, so why don't you chime in.

MS. COHEN: Well, I deal in design patent and copyright and trademark, and I think that's interesting

how even as a non-lawyer, you brought up the word “novel,” because novel is what is needed under design patent law, and there's no requirement for novelty under copyright law. So I kind of lean towards some sort of protection under design patent law, but that's just me.



MR. WEINBERG: Well, while you're on the topic, let's—I don't know how many patent lawyers are here or how many are willing to admit it, but—I'm sorry, it's an old prejudice. But let me ask you this, what does novel mean in the context of a design patent? Because I do know that, you know, the same kinds of people will attempt to protect a design of a feature under trademark law or under patent law. So when we get to the issue of patent law, what are we talking about?

MS. COHEN: Well, these shoes are from a design patent case that I won against Skechers. And this is a shoe that doesn't look that “new,” but certainly it was original, original meaning it was made by a designer of my client, Lugz, but the question then becomes novelty, and Skecher said, “Well, there's been moccasins for hundreds of years; there's been buckles for hundreds of years; there's been straps for hundreds of years.” And they sent me boxes and boxes and boxes of straps, buckles and moccasins.

MR. WEINBERG: Hopefully in your size.

MS. COHEN: No, just on—actually, photocopies of straps, buckles and moccasins. But none in these boxes had the combination of all three. And, actually, it was that that made the shoe novel. And so certainly, to the extent that the question is asked, what is novel? It's only asked in a patent situation. And it's a useful article; it's covered by patent. It is—doesn't have to be separable as in a copyright situation. So you know, I also, like you, represent 99 percent of the time, rights owners. I do think, though, what we're talking about in terms of where we have this gap in protection is this one percent perhaps; let's say the Balenciaga dress on the left and the knock-off, so to speak, on the right. Well, frankly, I think they're both red; I think they're both—maybe one's maroon and there's also a one-shoulder design and a bow, but that's kind of what we're talking about. I mean there would be nothing separable from the design. What about the bow is novel? What about having a one-shoulder design is novel? Perhaps by putting it all together, that's novel, and to me, that's why a design patent would be a better option than copyright.

I think that the protection, and there's no reason I think other than the fact that design patents are more expensive, they're really not, they're really about \$1,000, but anyway, this dress here, which has been in the press a lot, is a designed Diane van Furstenberg dress, and she's

suing Forever 21 for the copy on the right. That is protectable by copyright now except for perhaps the scooped neck and a straight line of the neck, but the fabric is protectable.

So we're really talking about this very kind of small unit of garments that are not currently protectable. Shoes are protectable. The purses are also protectable under design patent. You know, most companies get design patents for their very expensive purses.

You know, that silhouette on Michelle Obama, is it separable? I have a cheerleading company client, and this is a garment which has a design on it which I would contend is separable. I would contend that if you put this design on a shower curtain or on a—if that was your style, or if you put this design on your wallpaper or you could put this design on anything, it need not be on a garment, and that this is separable.

MR. WEINBERG: But you're talking about the red, white and blue stripes, right?

MS. COHEN: Well, it's the combination. It's the combination, these two colors. I have one that goes together, but in any event, the design of the garment, not of the garment, of the design on the garment. And the real difference is the design of the garment or the design on the garment. That's all there.

MR. WEINBERG: Alain.

MR. COBLENC: I think you put your finger right on it. This is what it's about; it's about the design of the garment and not the design on the garment.

MS. COHEN: That's right.

MR. COBLENC: As a matter of fact, our bill specifies that color, print, whatever is original about the fabric has nothing to do with the protectability of the fashion design we're trying to protect.

A couple of things, I mean patents—it's out of the question. Why? Number one, because in order to get through the prior examination process, it takes anywhere between two and three years. We are talking of an industry where in two or three years the fashion cycle has gone already six times. So it's irrelevant. We don't want to protect—we're not interested in getting a protection three years from now.

Number two, a patent is going to be, if I'm not mistaken, valid for 14 years. Who cares? We're interested in protecting for three years maximum. What is the reasoning? We want the fashion designer to reap the dividends of his creation. He's not going to make any money on the high-price couture line sold to 1,000 people. He's going to make money, if he is allowed, to have the exclusive right to knock-off his own design himself and to use this design in a cheaper line accessible to all of America.

MS. COHEN: I mean one of the things that I think has been talked about is an expedited patent, a design patent system which is—right now, they don't examine in the U.S. You just mail in your money and they mail you back a design patent. And we'd suppose for \$500 more, they'll mail it back quicker. And I'm sure they'll make the duration shorter if that was needed, but there would be no need to amend, I think, one of the principal definitions of copyright, that it be not a useful article.

MR. COBLENC: But it's done.

MS. COHEN: There's no need for amending anything.

MR. COBLENC: It's too late; it's too late. For the last many years, Chapter 13 has said that useful articles can be subject to copyright. It's a very interesting—

MR. WEINBERG: Chapter 13 is the protection of works of visual arts, and the first of the—this, like a vessel hull is one of the first to be protected—

MR. COBLENC: Right.

MR. WEINBERG:—under Chapter 13. So there's been an attempt to—

MS. COHEN: Whittle away the—

MR. WEINBERG:—to create a whole separate approach to works of visual art. I just wanted to—

MR. COBLENC: Well, but if you read the law, if you read Chapter 13, it says useful articles will be protected by copyright law.

MR. WEINBERG: Yes.

MR. COBLENC: And then in the second paragraph defining useful articles, it says a useful article is a vessel hull.

MR. WEINBERG: Yes.

MR. COBLENC: It's clear to me that it is the beginning of a long enumeration which Congress is now apt to launch.

MR. WEINBERG: Either that or all the designers are going to be congregated and put into a vessel and put out to sea. I never did understand the whole vessel hull thing, but—and the explanation is in the materials.

We're going to be exploring into some more depth the pros and cons of the different areas of protection that exists today, and that's—I apologize for cutting this a little bit short, because what I'm starting to hear, though, is not so much should fashion be protected or should it not be protected. What I'm hearing from this panel is that there is a segment of fashion design, maybe Haute Couture, will have to define that, that needs some short amount of time to allow the designers the opportunity to have exclusive rights in exploiting those designs.

I mean, Susan argues in her paper, for example, that the primary purpose of giving protection to Haute Couture is to give the ability of the designers to exploit those designs. And since most fashion, I would think, that needs to be protected or sought to be protected is seasonal in nature, right? We're really dealing more within a very, very shortened period of time.

But before we even travel into that, I've noticed, as I'm sure many of you in the audience have, there are designers who have taken this into their own hands. For example, I was at Mizrahi, who is very well known for his Haute Couture, his reality TV show not so much, but certainly his line in Target is terrific. I've represented celebrities who will go right into Target and so forth with their designs.

Why is this not something that can be arranged for by the designers themselves? And my counsel to a lot of my clients is: If you're coming out with a new line that you really need to fit into the marketplace, become your own pirate. Introduce three or four cheapo lines, and you line all that up with your people in China, and you get in there and exploit the marketplace, and let's not clog up the courts with all of this. Should we be looking at this as a marketplace solution, or should this be a legal solution or some hybrid of that? Kurt, do you want to address that at all?

MR. COURTNEY: Well, I mean I think—I mean you hit right on the point I was going to make—why don't . . . let's call it higher-end designers, market lower, you know? I think they have every opportunity. I don't think they need this law or this bill to become law to be able to do that.

I think it's both. I think there's a legal problem and then it turns into a marketplace problem. When you have all these—when you have design, there's little you can do to really make something truly new, so I think the problem that I'm going to see is—that we're all going to see is—you're going to have two—the lawyer over here is going to have a client that's going to create something, and the lawyer over here is going to have a client that creates something similar, and then they're either going to think that one's knocking off the other or—because there's too much ambiguity there to be able to determine what's actually there.

And so, I think eventually, if this bill becomes a law, okay, you're going to find yourself in a very troubling legal position where now you're going to have a market-

place problem because everyone's going to be hiring lawyers left and right to determine what's actually theirs. Oh, wait, it's not mine; no, it is yours, and then, again, you're going to find situations where people are going to settle out of court or whatever. So I think—and then you're going to find higher prices of clothing and we're already in a bad economical position here, as we all know.



Our members, from a retail perspective, those of us who have retail, you know, as Alain said, we're having serious problems right now. So I think, I want to—I would love to protect designs. I just don't know how, and until we can find a way to comply to laws that make sense, I just don't see how—and that I think why it's a legal problem first if this becomes a law, this idea, you know, we'll see what happens because the

bill has not yet been introduced, so it's hard to say what's actually going to be there for this Congress.

MR. WEINBERG: Arlana, we're going to go to Arlana and then to Alain. But here's two questions I would ask of you both while you're formulating your answers, which is, one, what level of fashion design are we protecting? I really—I think everybody here needs to know. Are we talking about Haute Couture? I mean what are we really talking about? And then secondly, if you want to address the marketplace versus a legal issue, that would be terrific.

MS. COHEN: Well, on this dress of Mrs. Obama—

MR. COBLENC: Isabel Toledo.

MS. COHEN: Ah, thank you. That was the nighttime dress.

MR. COBLENC: Right.

MS. COHEN: Okay. Well, the designer of the nighttime dress was not well known, and he wouldn't be able, I think at that time, to have gotten himself into Target or into anywhere. I think that it's not always realistic that someone can come out with the high end and the low end at the same time because nobody would have heard of him, and now, of course, everyone has. But back to Kurt's issue, which is even on this dress, kind of it reminds me of something my mother would have worn in the '50s. It's simply a beaded dress. It's a coat dress, has a little coat, and it has a little neck—beaded necklace or—with pearls or whatnot. But I'm not so sure that there's anything new about that dress, and that's where you get to if somebody—if this design act went through and someone then would go through whatever the hoops were, which

is you've got to mail in your money within the first three months and register the design and whatnot, and then if you took the beads off, would that be the same design or—and, therefore, would it infringe? Well, that's like every coat dress ever made.

So—and back to Steve's point on the first issue, which is are we only talking about Haute Couture? I think that's because Haute Couture is the one with more embellishments, I mean they have the money to spend on a much more embellished dress with all kinds of ruching [sic] and things and levels and—so the dress—we're talking about dresses, I think, that are very elaborate and that happens to, 99 percent of the time, be Haute Couture.

MR. WEINBERG: Which is kind of interesting because—and, Arlana, we'll turn to you in a second, because of the whimsicality case here in the Second Circuit and a number of other cases, costumes are not protectable under copyright as a matter of law, whatever, you know, if one looks at costumes as costumes are designed. So when one gets into this very flourishy, very highly developed architected kind of clothing, is it not functioning almost like a costume one would wear to a Venetian ball?

But let's return again to the concept—let's define what it is we're seeking to protect.

MR. COBLENC: Right. Well, first of all, I have a few basic premises that I want to explain because no one has seen, or I don't think many here have seen the bill. We don't even have a final draft of what the new bill will be that's going to be presented; but there are a few things we know and those things have to be told here because they basically answer many of the questions, including questions from Kurt.

First of all, any design—any fashion design which will have been published from the beginning of time until the enactment of our bill will be in the public domain. So it considerably reduces the application of the law purposely. This is not going to be retroactive, and anything that has ever been done is in the public domain and will not be registerable, period.

Second, the bill is going to include a provision for inspiration and for fashion trends, and it will be clear that trends are an exception that have to be taken into account.

Number three, the bill will definitely include a clause for recognizing independent creation as a defense. So Kurt's example earlier of two designers who happen to design the same thing in different parts of the country or different times, this is irrelevant. Independent creation has always been an exceptional defense in copyright cases, and it should be, and it will be.

Now, in terms of who this is or what kind of fashion this is supposed to protect, basically, it goes back to the concept of originality. I mean whatever is original is

protectable. Whether it's cheap, whether it's expensive, it's totally irrelevant. And as far as the example you gave about Isaac Mizrahi, this is the example that I want to hear because this is what I believe the U.S. designer should have the privilege of doing, like the Italian designer, the Japanese designer, the French designer, and all the others, which is to license their design so that a vast number of people have access to it and he can make a royalty on it.

I mean if tomorrow we can get the knock-off companies to pay royalties on the fashion designs they plagiarize, fine. It's a matter of highway robbery here. It's a matter of stealing somebody's creative output.

MR. WEINBERG: Let's turn—oh yeah, sure, Kurt, go for it.

MR. COURTNEY: Again, and this is a point, again, that one problem that we have is frivolous litigation. I think the larger problem is, and Alain just kind of made my point for me, is litigation at all. So independent creation is a defense, great, but that means I still have to go to court, right, so my members are trying not to go to court as much as possible. And if we have two legitimate people who now have to go to court as a result of this, that really weakens the whole point of having protection in the first place. And so I think that's a point that I just would like to make off the bat.

And one problem that we've had from the very beginning of looking at this is how do we do it that we don't just completely unravel the entire system and so that we're all not walking around here in white T-shirts and, you know, black pants, okay. This is very important, and that's an important point to make as well from my perspective.

Frivolous litigation is bad. Litigation in general is bad. I mean, my members are in court enough as it is. They don't need to be in court three to four to 50 times more to try to dispute things that should have no need to be disputed. So I just wanted to make that point.

MR. WEINBERG: Would have found a better use for that \$700 billion in this industry, I think. Let me—Alain—

MR. COBLENC: I'd like to respond to some points.

MR. WEINBERG: You want to respond to that? Okay.

MR. COBLENC: It doesn't need to be now, but I mean the issue—no, it can be later when you ask me to—

MR. WEINBERG: Well, let me ask—let me throw something into this for you before you even respond, because this is an issue, and I'm going to point everybody to the screen for a second. One of the troubling issues in copyright and determining originality, there are a couple of issues. One is we all know that the reason that the founders gave us the right to copyright is to put into the

public, you know, great ideas and great concepts and great expression. And what we have learned over the years is that all people really borrow from what has come before all the time, whether it's in patent or copyright or otherwise. In copyright, though, we have this very interesting issue, and that is the rights under copyright protect not only the protected design but derivative works. And at what point does a change, a building on to what existed before infringe a derivative right or create a new right? And I'm only raising that because there's a second tier then of issues that arise in litigation that we all need to be cognizant of, because there are a lot of cases.

I know regularly, I litigate the—a violation of the derivative right because it's not close enough to the underlying works. So this is a case here in the Second Circuit, my partner and I litigated. These are the Basha baby shoe jewelry, and we represented a company that had its own baby shoe jewelry. Now, looking at—he has about a hundred designs. And the issue then becomes can, first, anyone own baby shoes as jewelry? Is this a useful article as jewelry? And, second, at what point does a different baby shoe jewelry escape the protection—the scope of protection given to the original design? And I'm only using this because this is a case that's published, and I think it's in the materials.⁵ How would we go about addressing an issue like this?

So I will say that Basha was the first to—in modern times, at least in the 1990s—take baby shoe jewelry, which had been around earlier as we were able to prove, but take it and really modernize it. Made—added much better jewels, added a lot more, you know, design and artistry to this, but at the same time created a trend in jewelry. And what we saw was that some of the elements of these various designs, the girls on the left, the boys on the right, were derived from works of art, including Fabergé eggs. And you look at it, you can start seeing some of that embedded there. So how would we apply what we're talking about to fashion to something like this? And I'm using this because fashion can be a shoe, for example. Let's make believe this is a shoe. How would we approach this using what's being proposed in some of the legislation?

You want to—anybody want to take a grab at this?

MR. COURTNEY: Well, I mean—

MR. WEINBERG: Because I want to really focus on what you said about, again, about trends because generally speaking, I can see where a type of jewelry, a type of clothing, a type of this can become very trendy, and then how does that fit into the mix?

MR. COBLENC: Well, again, that is provided for in the bill because it is extremely important to distinguish—I mean you mentioned derivative. It reminds me of a conversation I had with a top executive of one of the largest Seventh Avenue manufacturers, a member of Kurt's association, who basically instead of knock-offs, obviously,

has a very elegant word for it. He says it's "derivatives." And those derivatives—obviously, those derivatives are a little bit more than that, and when you go to the so-called design studio of that company, you see racks and racks and racks of clothes that have been purchased by their design team and then ripped apart to see exactly how they are designed and manufactured and re-assembled and so forth and so on. Anyway—

MR. WEINBERG: And, Alain, let me just make sure, it is true, though, the pattern itself is protected by copyright, so if someone reverse engineers the—

MR. COBLENC: The patent.

MR. WEINBERG:—the silhouette, I think that the overall pattern can be protected by copyright. No?

MR. COBLENC: No.

MR. WEINBERG: No.

MR. COBLENC: No. It's functional.

MR. WEINBERG: Give it a shot.

MR. COBLENC: I mean when I said that I would postpone my reply to Kurt in terms of litigation, you know, I have some statistics as to what happens in Europe, and I know that you want to talk about Europe later on, so—

MR. WEINBERG: No, you can do that now, actually. This is a nice time to start talking about that.

MR. COBLENC: Okay. Well, as we said earlier, historically and today, France is probably the leading country protecting fashion design today. Since 1793, in the preamble of the Declaration of the Rights of Man, which, of course, has inspired, for the most part, the United States Constitution.

Now, in a country like France where there is a strong incentive to protect fashion design, first of all, you have to understand that there are a number of levels of protection. There's domestic law protection for unregistered design, domestic law protection for registered design, European regulation for unregistered design, and European regulation for registered design.

So you have all these layers of protections that are sometimes complementary. You can choose among them or you can use both, protected or unprotected. For the most part, fashion designers in Europe, in France, or in Italy or any member state of the European community will not register, publish, and if a particular item is successful enough that it deserves or it's worthwhile to protect it, to register it, then it is registered within a year, which is the term during which you can register in Europe.

But to go back to statistics, because I think it's important to relativize the notion that everybody is going to be suing everybody. If you look at the statistics of two years

ago in France and the number of litigations that reached the Court of Appeals in charge—the section of the Court of Appeals of France which deals with intellectual property—there were 308 lawsuits in appeal in front of that court during the year 2006. And out of those 308, only 10 lawsuits concerned fashion or fashion-related accessories.

So, you know, I think that the Loch Ness Monster of everybody suing everybody and the abuse of litigation and how it's going to ruin the industry, I think when you look at what's happening in Europe, you see that it's not really a concern, or it shouldn't be a concern.

MR. WEINBERG: Although, in this economy, a roomful of lawyers is probably not so excited about seeing their income going away from not being able to sue, so I'm not quite so sure. No, but that's—and that's helpful to know.

But I will say that I don't know what the statistics are here, but I do know that there are an awful lot of certainly fabric design cases that are filed on a regular basis here in the Southern District, and a lot of jewelry cases as well, and more recently, we've seen a number of other kinds of cases. And this is a more litigious community than the European community.

MR. COBLENC: Sure, although a lot of these cases, for instance, all the Forever 21 cases that you see, they're cases of frustrated designers who sue on the basis of fabric because they have nothing else to sue on, but I mean it's pure plagiarism.

MS. COHEN: Well, the example here is from a Dutch case, which I think would have been something that they could have protected under copyright. This—I don't have the citation, I'm sorry, but I think that to the extent—we're talking about basically, you know, kind of flowers on a tank top and which would be covered by copyright and, you know, except for the flowers, I don't—what is the design? There really is no design.

MR. COBLENC: I agree.

MS. COHEN: And I don't know if you have statistics on the EU courts, but I think the EU courts now are getting quite busy with these design cases I think because the kind of system sunk in. They're used to it now. You can get a quick injunction. You can go in for an automatic injunction with showing your design registration for an automatic injunction, whereas in France, as we know, courts take a long time and it's a hard kind of country to use as the norm, but I think the EU courts are really going to start being very, very busy with these cases. And to the extent they're not busy I think is also the question of the fact that the person who infringed generally pays the legal fees of the other side.

In Europe, we have the loser pays, which we don't have here, so I think in Europe, it cuts down on any kind of frivolous or—

MR. COBLENC: That's the next bill.

MS. COHEN: Good luck with the Trial Lawyers Association. That's in the next room.

MR. WEINBERG: It's good to know, though, that one of the benefits of globalization is increase in legal business, so that's good.

Let me ask you this, because now we're going to talk about other areas of law and stuff, but what about the music industry years ago and today, clearly digital issues, decided to get involved in a scheme of compulsory licensing, and so I'm thinking maybe if—is there a mixture here between a compulsory license and maybe a form of moral rights thrown in where a designer can, one can, in fact, knock-off a design, do a compulsory license, but if it's offensive to the designer, have some right to stop it? I'm trying to put together some other alternatives here. What do you think of that? I'm not hot on it, but I thought I'd throw it out.

MR. COBLENC: Are you asking me?

MR. WEINBERG: Sure, why not. I'm asking everybody on the panel.

MR. COBLENC: Okay. Well—

MR. WEINBERG: And anyone in the audience who wants to add.

MR. COBLENC:—as far as the moral right, you know, it covers the right of attribution. It doesn't cover—

MR. WEINBERG: In the U.S.

MR. COBLENC: Yeah.

MR. WEINBERG: Yeah. No, I'm talking about just—in its broader sense.

MR. COBLENC: Well, in the broader sense, it's too broad. In terms of the compulsory license, I think it's a very bad idea because it means that everybody can copy everybody. You just have to pay a little money and you arrive at the same terrible results that I was mentioning earlier that affect and weakens the American fashion industry on the international stage, which is that you arrive at a stage where there's such an amount of dilution. In other words, if—everybody can copy paying royalties; everybody can copy everybody.

What happens, and I insist on that concept because it is so important, is the brand DNA, the personality of the designer has been completely diluted and, you know, it's—I think it's a miserable solution.

MR. WEINBERG: Well, then, if we're talking about brands, then maybe we're talking about the realm of trademark law, you know, the old *Coty*⁶ case—the *Coty* case, right, and there, of course—that was one of the cases here that said you can copy a design, but you've got to

give attribution. So how does the world of trademark law fit into this? Arlana, you want to give it a first shot?

MS. COHEN: Well, I'm not quite sure that it really does. I think that by the time something would be protectable as a trademark, it would have to have come to identify source and that would take a while, and then by the time that design had secondary meaning would just take too long. I don't think it will work. I don't think trade dress would work. It's just kind of the fact that you know the source without it even being in its proper shape, but the trade dress of the package is so well known that it doesn't matter what the shape is. But I think by the time it got built up, it just would never be useful if the fact of timing is important. Which is why I got back to design patents, which is, again, I didn't see any real issue with design patent Alain, other than the fact that they're expensive or slow.

MR. COBLENC: And take too long because of the prior examination that is necessary.

MS. COHEN: Well, but they don't examine in the U.S.; they do not examine in the U.S. They basically leave it up to the design patent owner to litigate it. You kind of get your design patent and it's your burden to prove novelty.

I think that, for instance, let's say this dress, the red dress, it's a beautiful dress, but I mean I don't—I'm not sure, again, how you would state what is original about—

MR. COBLENC: No, but listen.

MS. COHEN:—or novel about it.

MR. COBLENC: It looks like we're looking at a red-carpet presentation at the Oscars ceremony.

MS. COHEN: I'm not sure.

MR. COBLENC: Well, certainly the dress on the left is worn by a famous actress.

MS. COHEN: Yeah.

MR. WEINBERG: We can all agree she's on the red carpet.

MS. COHEN: And I think on the—

MR. COBLENC: And she is on the red carpet.

MS. COHEN: And the one on the right I think was an accused infringer, Jessica McClintock.

MR. COBLENC: Well, look at the following circumstances. You have the Oscars ceremony live on television. You have at least an hour of coverage of the red carpet before where it seems that people are more interested in the way they are dressed than the films. The next morning on the *Today Show*, a manufacturer from Los Angeles appears and shows a few dresses, "So this is the dress of

Gianni Versace that Meryl Streep was wearing last night, and you can have it for \$299. This is the dress that Nicole Kidman is wearing for Chanel, and this is something that will be available next week at all department stores under my name for \$299 as well." I mean there's a—isn't there somewhere a limit to how we're going to allow people to pillage the creativity and the design and even in this case the name of established fashion designers and basically ride on their reputation and on their creativity?

MS. COHEN: Well, why can't they apply for a design patent?

MR. COBLENC: For?

MS. COHEN: A design patent. If they got to put their money where their mouth is, so it's \$2,000, whatever it costs, why can't they just file one?

MR. COBLENC: Well, I mean don't forget that the collection usually consists of 150 designs per season, so it's a lot, it's a lot of \$2,000 checks.

MR. WEINBERG: But now we're also talking about famous designers, and as I understand it, a lot of what we're trying to protect are the kids who come out of FIT and have something—

MR. COBLENC: Right.

MR. WEINBERG:—really fantastic, you know. Can they afford the \$2,000 on top of their tuition as well as the rents in Manhattan? So I think we have to give due consideration to that, too. I think—I agree with you, Arlana, that certainly for a company that can afford the patent process and that's a great approach, the design patent, but what about the younger people?

And, in fact, even if one can afford to get a form of fashion protection under copyright for \$45 or whatever it's going to cost to do that, they can't afford to litigate anyway.

MS. COHEN: Well, that's right.

MR. WEINBERG: So, how does this—I mean is it really the lack of protection that's going to add to incentivizing people to—and send people to create new designs? Or are they really just going to give it a shot and then they're stuck anyway because they can't afford to litigate?

MS. COHEN: Well, I think Kurt's members, I really do believe, are careful in what they copy—make. I think they're careful. They try to create their own version. I think that people have been doing that forever. And I think they kind of know how—even though people think there are rules like if you change it by 22 percent, then it's okay. You hear these crazy rules that don't exist, but I think that—

MR. WEINBERG: Five percent red was a big one in the '90s.

MS. COHEN: Right. I think that but for the out-and-out counterfeiter, most companies understand that they have to change something and then that goes to the stifling creativity thing. Is the changing something in and of itself a design and shouldn't these people be able to have inspiration? You can't just be in a room, an empty room, and start—you're never starting with a blank screen. You're building on something from the past.

MR. COURTNEY: For the record, for those of you who don't know our organization, we represent everyone from the smallest shop to the biggest, and there's a lot of crossover between CFDA and WFA. A lot of major members that you all know, probably you all represent, are members of mine, and—

MS. COHEN: Me, too.

MR. COURTNEY: Yeah. So I would say that none of us copy. Others in the room may disagree, but that's fine. We do not—I mean we create our own stuff. And, you know, I'll put it to you this way, Alain had said earlier that our Constitution was inspired by the Declaration of the Rights of Man, but was our Constitution knocked off? No.

The biggest problem about defining what exactly is a trend and how do we—where—it's just a giant gray area. And, sure, I can wholeheartedly support and understand that if Nicole Kidman walks down the red carpet in a dress and then the next day there's the exact same dress at a tenth the price, okay, fine. But I mean we get to a point—and if that's the problem, let's address that as a problem, and I'd be happy to take that back to my members. But, you know, when we're talking about—thinking about the movement of a button or, you know, something that doesn't make it an exact knock-off, where that line is I don't know.

And I think that's something—I mean it's just like when you're driving on the highway, you don't go a thousand miles an hour because you know the speed limit says it's 65. There's no speed limit yet, and that's what we need. We need something—my members need something that says you're not going to infringe because you did this, because you drove under the speed limit. That's how you know. But with the way that at least the past proposal was written, it was too vague, and you have no idea. You could be just going about your daily business and designing the next great thing and the next thing you know, you're getting sued. So, you know—

MR. COBLENC: It's an invasion.

MR. COURTNEY: But, again, that's a defense in court that you have to make in court. I mean, again, there has to be something before the court—

MR. COBLENC: If your conscience is clear, you know that you have no problem.

MR. COURTNEY: I mean I wish the United States law could dictate what my conscience says, but it doesn't.

MR. WEINBERG: That's one of the real troubles here because as it turns out, we do have the right to copy. That's what the Copyright Law allows. The Copyright Law allows us to copy. We just can't copy and create something substantially similar. And that's sort of the tough line.

You know, as I'm sitting here thinking about the various kinds of protection we've seen in the past, and I'm harking back to kind of a moral rights thing again. Everybody remember the Monty Python case?²⁷ Okay. So in the Monty Python case, as you know, ABC has allegedly butchered the series of Monty Python cases, and under Section 43 of the Lanham Act, the creators of Monty Python were able to say—well, the court said in dictum, that the ABC version, the edited version of the Monty Python series could no longer be called Monty Python.

And one—you know, maybe the way we play with this a little bit is if one cannot say that the resulting design is, in fact, based on the work of a particular designer, then you've crossed the line in a sense that whatever has been created, if it harms the reputation of the designer, then off it comes because people are making an association with the designer. If it's not doing that, then maybe you've created something that you can allow to be sold. Because what I'm hearing a lot, Alain, and I agree, I mean people who are coming out of FIT are trying to build a reputation. The Yves Saint Laurents and the great houses of couture are trying to preserve their reputations, and a lot of this just seems to be about reputation.

I know there's commercial, in fact, everybody wants to be able to make money from the licensing of their original works. But maybe there is a line to be drawn here about what can be said to be attributable to the designer and what could not be, and maybe that's a guiding line because I have—I mean all of us who spend our times in court—well, there's a couple of things we all experience. One, is a lot of copyright and trademark cases get assigned to the newest judges on the bench or the oldest judges on the bench. And so what happens is anything can happen. And the second thing is that substantial similarity is never an easy thing to determine. It's in the eyes of the ordinary observer. Who's that?

And so, there's this—a lot of movement going on around here and if, in fact, attribution is going to play a significant role in the rights that are being divvied up here, maybe we should be focusing more on that. I'm just throwing that out. Any comments?

MR. COURTNEY: Are we talking about substantial similarities?

MR. WEINBERG: You can talk about anything you want because we're in our last half hour, so—

MS. COHEN: Well, I think—

MR. WEINBERG: Oh, here's a question back there, so good. Want to stand up?

AUDIENCE SPEAKER: Sure. So I've litigated some of these cases, mostly the textile design claims as opposed to fashion design claims, usually those can be solved with a couple of phone calls between counsel, et cetera. But I still don't see where the answer's coming.

My understanding is that whether it's really a textile design or a fashion design, you still have the central problem of separating the artistic elements of it from whatever useful features it has. If I'm wrong about that, please correct me, but what's different about your design patent that would afford any more protection than would not require that analysis? It sounds to me like you still need to go through and figure out which portion of it is the expressive original elements that I guess the design patent protects.

And then my other part of the question is what about this bill; is this bill really going to change that? Are we still going to be stuck with trying to understand what about the design is artistic, whereas the bill is just proposing that any design that's registered is protected.

MR. WEINBERG: So let's start with the first question, which is—since we've thrown this out—what is it—what would be the difference between taking a patent approach as opposed to a copyright approach? And let's look at it from this perspective. And, again, when we talk about textile design, we're talking about the actual design that is printed on fabric, right? So then it just becomes a work of art or not. Right. This is more about what's called a silhouette, the actual structure, the three-dimensional version of what's going on to the body or the head.

MS. COHEN: My only point is that under a design patent, it does not need to be separable from the useful article. So to the extent that separability knocks copyright protection out automatically, then you don't need that for design patent, so—and the other point being that it has to be novel. You have to sign a declaration that says that you believe that your thing is new, and new means new.

So to the extent you have another hurdle, you have to say you believe you've made a new thing, and you don't have to do that under copyright. It is—the only thing you have to do is say that you made it. It's, you know, from when—from law school, it's write down what you did on your summer vacation on a piece of paper and now you have a copyrightable thing.

MR. WEINBERG: Well, Arlana, let me ask you. You're looking at this shoe, okay, and you say, "Well, this is the Skechers version." Was this held to be novel or not novel?

MS. COHEN: My client's. Yeah, it was, absolutely.

MR. WEINBERG: So what is—look, we've got a shoe that has a particular format we've seen before. We see a design that we've seen on other shoes. We've seen a bottom. What part of this is new that would be protectable by design patent?

MS. COHEN: Well, the—under the old law, they—or under—there's been recent cases that said that you had to describe a point of novelty and you had to basically as if you were in a utility patent situation as if you had a Markman hearing, to come up with what is it that was your crux of your inventory, but now they're saying that that's unnecessary, but we went through those hoops because the design is the design. When you apply for a design patent, what is it? It is that which you put on the application. It's the picture of it.

And our designer, the person who designed this, who happened to have been a young 20-something designer, felt, and she did believe that she had not ever seen, and maybe she was wrong, but she believed that she never saw a combination of the elements that are in this shoe.

MR. WEINBERG: So then even though there are elements of this that are public domain, it's that combination?

MS. COHEN: Correct. I'm sorry, I was going to go to the definition of design patent.

MR. WEINBERG: Oh, that's okay. No, because I want to look at it really from a practical—I mean here we are a bunch of lawyers, we're going to be counseling clients about fashion and design, and many of us I think are going to look at the design patent law and—or consult with patent lawyers to find out what does this really mean. So when you say this is new, then I guess what you're talking about is a combination of features that can include something that's old.

MS. COHEN: Yeah. And Skechers is a publicly traded company, and in its annual report, which we—which is public and we put in, and it said in it that they can copy something and have it on the market within one month from seeing it out there. They can turn it around in one month. And that was their mode of business.

MR. WEINBERG: So how would you approach something like a shoe, like a bejeweled shoe?

MS. COHEN: Well, I think that the Aaron Basha shoe should have been perhaps protected by design patent, and if it's not, then—I mean I've litigated against them, too.

They also had ladybugs. I represented Joan Rivers in a ladybug case where Basha said she owns all ladybugs, and, of course, there's been ladybug pins since, you know, your grandmother had ladybug pins. And that's why a useful article thing—yes, it's a sculpture, but it's a thin copyright. I mean to the extent you have a copyright on

a ladybug pin, it's that exact ladybug pin, but there's no novelty requirement, and why should anyone have to be in court over that ladybug pin? If there was a novelty requirement, I don't think they could have signed the design patent application, truthfully.

MR. WEINBERG: All right. So now what they mean, this combination, this particular overall design and its individual components is new?

MS. COHEN: Well, that's right. You don't have to say that the separate individual components are, not—because you couldn't say that any—the snowflake thing. I mean it's all—

MR. WEINBERG: So if I wanted to infringe, how much would I need to change it?

MS. COHEN: Well, you know that that is something that can't be answered. You have to, you know—

MR. WEINBERG: You have to litigate it.

MS. COHEN: Well, your clients would have to know how to be inspired by that which is out there and create new and different things.

MR. WEINBERG: Which gets us essentially back to the same argument, what substantial similarity, what is novelty, and how—and where—and what is that line, which is Kurt's issue as well. There's a question in the back.

AUDIENCE SPEAKER: I have a couple of questions, actually, about the 2006 bill. With music, it's usually the technology is moving faster than the law can. So how would you feel about, for example, I don't want to use the word compulsory because I notice that some sort of licensing slant where there would be something like a six-month stay to—for fashion trends and then more time to knock-off, for lack of a better term.

And then the other thing is how would you handle, I guess fashion lines by, you know, Diane von Furstenberg, or something like that, versus the Jason Wu blue dress that's fitted one time for the President's wife?

MR. WEINBERG: So the first question is should there be a sort of like a Hot News. Everybody knows about the Hot News misappropriation, what's left of the misappropriation laws, this little period of time when news remains hot. So assuming that we're dealing with that in the fashion industry, there's this window where exclusivity really does make a difference to the designer for establishing a marketplace, and after that, anyone would be able to do it, assuming that it's something one could attribute as being based on the designers.

MR. COBLENC: Yeah. Well, this is exactly the purpose of our law, of our bill. I mean it is strictly that except that six months is not realistic for two reasons.

Number one, in the fashion cycle, there is something like summer, spring/summer, and there's something like fall and winter. and if you want to give the designer the opportunity to have—the exclusive opportunity to have—to knock-off his own design in order to license it to Target or others, you have to take into account that cycle so that six months is not realistic. You want his design that is presented in February '09 to be exclusively his until—not only until February '10 when he presents it in the cheaper line, but basically until the fall of '10 or—I mean basically, you need two-and-a-half years of exclusivity in order to allow the creator to recoup his investment and to reap the benefit of his creation.

So your—I think your principle, your philosophy, is absolutely correct. It's just a matter of adjustment of the time needed for the designer to be able to exploit his own design. This is exactly what the bill addresses, yes.

MR. WEINBERG: Sir. Yes, you.

AUDIENCE SPEAKER: Following up that other gentleman's thought before, if you could separate the elements, because I've had this issue with the Copyright Office, between what's unique and non-functional, you mentioned two things before that can cause concern. One is design inspiration, and the other is fashion trends. In effect, you're kind of putting quite a lot of responsibility now on the Copyright Office because they're going to have to be aware of what is inspiration, what is trend. And is it really an inspiration just to knock-off what's come on before, you know, in the 1950s, the 1930s, a lapel, a hemline, off shoulder, on shoulder? Isn't that what design inspiration is, reproduce what's come before in a different way?

MR. WEINBERG: Very good question.

MR. COBLENC: Okay, so a few things. First of all, as I said earlier, anything that has been published, anything that has been shown, anything that has been sold, until the enactment of this new law would be in the public domain. So that you can copy as much as you want by definition, right? So the only thing we're talking about is new creations, but I'd rather use the word original creations, which are registered with the Copyright Office. Number one, when you register it, like in patent—like in design patent, you have to have a little blurb that explains what is new about your—what is original, sorry, about your creation.

Number two, there's a database that is done by the Copyright Office, accessible on line, which allows anybody to take a look at what has been, what has been done and registered, and is subject to some kind of exclusive right. So I think to the extent it can be resolved, I think we've resolved that.

MR. WEINBERG: Go ahead Kurt.

MR. COURTNEY: But the problem is what is in the public domain. Everything that we're all wearing today is in the public domain. How do you manage that? How do you encapsulate that into something where someone brings a design in and says, "Oh, no, no, wait, wait, wait, wait, wait, no. That was made five years ago in New York" or wherever it was. I mean you have to now create a database of everything that ever existed, so you're going to see the Roman toga in there from 1,000 years ago—

MR. COBLENC: No, no. It's a database of the new stuff.

MR. COURTNEY: I understand this, but how do you check it to the old stuff? How do you make sure that you're not making something that the Copyright Office doesn't make something original—

MR. COBLENC: How do you make sure that when you register a song—

AUDIENCE SPEAKER: I did see women wearing what looked like the Roman soldier sandal last summer. That's 2,000 years old—

MR. COBLENC: That's in the public domain. And excuse me, but what is the difference with a book? What is the difference with a song? I mean, you know, there's a point where if you don't trust the judgment of the Copyright Office, you don't have a copyright.

MR. COURTNEY: Well, I mean I could re-record a Beatles *White Album* and say by Kurt Courtney, and I can get that copyrighted. I mean so—correct me if I'm wrong, lawyers, but I think I can.

MS. COHEN: You can't do that.

MR. COURTNEY: Huh?

MS. COHEN: I don't think so.

MR. COURTNEY: Really?

MS. COHEN: I think it's pretty well known.

MR. COURTNEY: Even if I say I attribute this to the Beatles?

MS. COHEN: What are you talking about, the name or the song? I missed the question.

MR. COURTNEY: Yeah, the song. If I can, you know, sing a song by me, but I didn't write it—

MS. COHEN: You could sing it live.

MR. COURTNEY: Really?

MS. COHEN: You can't call it that.

MR. COURTNEY: Okay. My concert will be later this week. No, just kidding.

MS. COHEN: You got to pay a royalty.

MR. COURTNEY: I guess my point is, is that when we're talking about the public domain, my fear is that things that are in the public domain will subsequently become registered and deemed original—

MS. COHEN: They would.

MR. COURTNEY:—and that's a problem because then all of a sudden things that were in the public domain are now not being able to be copied. So then what there subsequently has to be after that is a challenge to that registration that says no, no, no, that shouldn't even be considered original in the first place. And so that's a whole other list of problems that we get into.

MS. COHEN: Well, I think you're talking novelty. That's not originality. Originality is simply "I originated it." You have to truthfully say, "I did this." That's all originality is. So you're really talking novelty.

MR. COURTNEY: Okay, okay.

MR. WEINBERG: Well, originality actually in copyright means not substantially copied from another source.

MR. COURTNEY: Right.

MR. WEINBERG: So I mean—so it's either more complex than that, right. You have a question?

AUDIENCE SPEAKER: I was just going to say, with the long term of copyright protection, wouldn't eventually all those things, like the Roman sandal, be closed off? You wouldn't be able to add upon that eventually because everything that is in the public domain now would eventually become subject to copyright and the term of copyright.

MR. COBLENC: That's just for after three years, not 70.

AUDIENCE SPEAKER: Oh, oh, there would be a term change?

MR. COBLENC: Completely, yes.

AUDIENCE SPEAKER: Oh, okay.

MR. COBLENC: The copyright is valid for three years only.



MR. WEINBERG: Yeah. It's like architectural works for 10. I mean these days if you're trying to protect an industry, there's going to be a lot of lobbying about how much exclusivity do you really need. Yes.

AUDIENCE SPEAKER: I was wondering if you could just speak to how you think it would affect some of the other businesses that rely on fashion as their main source of information, like fashion magazines who so often do spreads of this is what Yves Saint Laurent designed and here's where you can find it for \$200. I mean those are regularly monthly columns and all that whole industry, how you think that these would affect it, for good or bad or—

MR. COBLENC: Well, in terms of the fashion magazines, they are covered in the bill and excluded as well as the retail industry and so forth and so on. In terms of these splurge or steal, or steal or splurge, I'm not sure, you know, this is just—it's just unacceptable. I find it outrageous that you can incite people and give them the address to buy knock-offs. I don't know. For me, it's totally—it's a moral problem.

AUDIENCE SPEAKER: Even when they say find the same type of style as, not say find the same thing.

MR. COBLENC: Well, wait, wait, wait, no, no, no. But these—I'm sorry, these are exact copies. If you look at *Marie Claire*, I mean I'm obviously a little bit familiar with these pages and I can promise you that these are exact copies. They're not trends; they're not inspirations; they are copies.

AUDIENCE SPEAKER: And you find an exception to the trends and, you know, this is the trend is such versus here's an exact copy and where to get it.

MR. COBLENC: Yes. I mean we've established a rule for this roundtable. We're not going to quote from the actual bill, but I have here the definition of trend in the bill. It is quite broad and it is a defense to an infringement action.

MR. WEINBERG: Just right now the way the law reads is that one can enjoin a publication, but there's no damages, but then again because there have been a lot of cases that say if there's only one or two elements that are in knock-offs in the magazine or in the book or whatever, as in the John Belushi case and others, that there's no irreparable harm. So it's—and that's always been the case, as long as there's no willfulness involved on the part of the media.

So I don't know, this whole thing is just—I'm finding it very difficult to put my hands around it only because I'm not hearing yet a simple solution to this very complicated problem, in that one way or the other, we end up, it sounds to me, like in a complex fact-determinative situation, and I don't know exactly how that really helps to stimulate some of the younger designers who really can't

afford the litigation process, which doesn't mean we don't go forward with something. Obviously—

MR. COBLENC: How do you know?

MR. WEINBERG: Okay.

MR. COBLENC: It's a deterrent, one word; it's a deterrent. And when you talk to these young designers, as I have, you know, many times, I mean they are at a point where they don't even—even if they're now established enough that they could pay for a show under the tent, they don't dare do it because they know that they are going to be stolen. They have so many experiences of people coming to their stores, buying a bag, returning it the next day, and finding it on the Internet two weeks later.

MR. WEINBERG: So should we be lobbying—well, I'm just going to say for a criminal offense, but given the lack of money we have for criminal enforcement these days, I don't know that that's really going to be top of mind for our local NYPD. So I guess it does come down to something civil. And your concept is, is that those who can afford it should litigate pretty hard, and that will be a deterrent.

I think another problem that we're dealing with, of course, is that usually the knock-off company is the legitimate licensee of the designer. I mean one of the issues that—I don't know if this is true in dresses, but I know certainly in athletic shoes and jewelry and bags and other accessories, that very often it's the authorized licensee—the authorized manufacturer in China or Korea or other places that's doing the knock-offs through their second cousin's factory down the street.

MR. COBLENC: Then it's not a copyright issue. It's an issue of breach of contract of a licensing contract and, you know—

MR. WEINBERG: Well, let me ask you this then. What is going to be the solution to international enforcement? Because this is really—this is a global problem and we haven't really addressed some laws outside of the United States other than France, but I mean how are we going to—we have a new administration. We may have changing views about some of the countries we deal with. What should we be doing overall to make sure that the import laws are going to be followed and that there is going to be enforcement and if we leave it in the hands of the courts, it's going to constantly become, I think at least, after years of watching it in counterfeiting, that those who are in the business of counterfeiting know how to make money out of it. And there's just so much that you can do with them in the courts. So a lot of it really is going to involve, I think, some form of international cooperation. Do you agree? No? Yes?

MR. COURTNEY: I'll start just because I deal with the government on this issue, I mean on the issue of counterfeiting on the international scope. And I would like to

say that I mean for as many public, private partnerships as there are on the thousands of issues in Washington, I would say intellectual property enforcement is probably one of the best. Yeah, I've worked with—now this new—the pro IP bill passed last year before the end of the last Congress and that creates a coordinator at the White House because intellectual property falls under so many different agencies and departments that Congress felt that it was a good thing to have someone coordinate all that.

China, obviously, is going to be number one, all right. Obviously, I mean that's where most of us—most of my members produce for those that don't produce domestically, and I know that's rare, but there are a few.

And, you know, China is getting better domestically internally. I'm not going to say it's great, but—because it's not—but it is getting better. And I think that—we'll see what happens in the next couple of years, how that continues to get better, but there's still a lot of things.

A lot of these trade agreements that we have going through, they have this special IP stuff in there. The Chinese government just frankly just doesn't know what their people are doing half the time, and sometimes—I mean they're employing workers, so they just want to keep the factories going. But I'll tell you, it's one thing that AAFA is prime on, and we supported that bill all the way, and that's a major problem. And how do we do it from a legal perspective, I don't know. I mean maybe that's something—you have to go and enforce the laws in China. There's nothing really we can do.

I also have to also point out that footwear is the number-one seized item at the border, and apparel now is—I think it dropped to number three after the last report that came out. And this is stuff that's already breaking current laws, okay. This is trademark infringement. It's all sort of this stuff. This is stuff that's already losing—

MS. COHEN: I agree.

MR. COURTNEY: And it's a lot; it's a lot of stuff. And I was actually at the ports of Long Beach at their counterfeiting facility and it's incredible. You'll see a box marked furniture and it's a bunch of children's clothes or a bunch of fake Nikes or things like that. I mean it's insane.

MS. COHEN: Well, I agree with that also. I think Customs is the best-working agency we have, and for the client's \$90, they can record their trademark with Customs and that's their right on top of it.

I must get calls from Customs three or four a day, and many of them are for people like Carolina Herrera and the friends of Alain, so I certainly am—cannot say that I don't agree with anti counterfeiting. I certainly do not—I'm not a proponent of counterfeiting.

I think that we're back to this sort of gap of this tiny, little amount of, you know, if I want a Carolina Herrera

dress, I want a Carolina Herrera dress, and I'm not going to wear a copy. It's the same thing as the person who wants a Louis Vuitton bag and she wants the Louis Vuitton bag and they're not going to buy a copy.

And I think we're back to—it's almost a supply and demand or whatnot. I mean it's—we cut out the copy use that exists, which I think some companies do well on the streets and whatnot, but I think you know you want the real one. I don't know how many people we're talking about that want the copy.

Now, sure—and also, how many people want to dress like—that's just red. I mean how many dresses don't have some sort of print on it, you know? Most dresses have a print. When we get back to the Forever 21 one, it has a print on it, and so we're really—it's Haute Couture without a print on it. So it can't be that—the percentage is so small because the print is protected. The fabric design is protected. And I think there was a reason that the Constitution covers copyright and patents, and a difference being whether one is a useful article and one isn't, and that's why it was written the way it was written.

MR. COURTNEY: And I want to summarize one point, I know there's some questions. Just the difference between counterfeiting and design piracy, okay.

MS. COHEN: Right.

MR. COURTNEY: Design piracy is essentially lifting a design and just – and you're putting your name on it. You're not putting the original designer's name on it. And there's a very big difference there. I want to just make sure that that's—

MS. COHEN: That's right.

MR. COURTNEY: I'm sorry.

MR. COBLENC: I'm sorry. This is absolutely incorrect statistically. There's no question that the vast majority of imports of design piracy in the United States is part of the counterfeiting traffic. And you will not resolve the problem of counterfeiting without resolving the problem of design piracy. Why? Because what is happening is that the products come in from China without the trademark. They are perfectly legal, even though they're pirated. And then the label is affixed on them, and they are counterfeit. And that is the problem. That is why this bill is absolutely necessary.

MS. COHEN: Well, there have been cases where you can show that the intention was to bring product in and then sew the label in the U.S. That is also considered counterfeiting. That's already illegal.

MS. COHEN: That's already illegal if you intend to sew the label on.

MR. COBLENC: But it is not illegal to import in this country—

MS. COHEN: No. It wouldn't—Customs would not—

MR. COBLENC:—address—right, right.

MR. WEINBERG: I invite you all to go to Chinatown after this and see how things are flourishing. In fact, there are companies that won't even send people down to do counterfeiting raids downtown because the Tongs will kill them, so—that's real. I mean, a lot of the trade is controlled by gangs down in Chinatown here and in other cities.

MS. COHEN: Well, I don't believe in raids anyway.

MR. WEINBERG: Well, there you go. But I mean counterfeits are kind of flourishing, and, certainly, the Louis Vuitton knock-off guys are doing terrifically well, and there's barely a hair salon you can walk into anywhere in the country and not see the knock-offs. So, you know, I just—I don't know how—

MR. COURTNEY: I see the definition between the two. That's how I see it because counterfeiting is something that's already illegal. Now we're talking about design piracy, which, again—and he disagrees, but that's how I—

MR. WEINBERG: Well, there are a lot of terms of art here, but I think what we're really talking about is where functional design is a work of art, how should it be protected. That's really what I'm hearing, right?

MR. COBLENC: Well, my motto on this is design piracy is counterfeiting without a label.

MS. COHEN: Or the design. No, I mean or a color rating.

MR. WEINBERG: We have a question.

AUDIENCE SPEAKER: I was wondering, nobody's mentioned the issue of fair use. I wonder how you would see the affirmative defense of fair use, especially the transformative factor?

MR. WEINBERG: I think we'd have to log you into the Supreme Court to give you an answer like that because it's—the question really is where does fair use, Section 107 of the Copyright Act, fit into all of this? And I think, certainly, my view is that the recent spate of cases, you know, since the '90s talking about how you have to have a transformational use and this, that and the other thing, has made fair use a highly litigatable issue. And I don't know that anyone could say, yeah, this is a—I mean what's a fair use of a baby shoe? What's the fair use—clearly in a case like this, you know—

MS. COHEN: It's not transformative.

MR. WEINBERG:—there's nothing transformative; it's the same thing, and you're not conjuring up—you're really just copying. So I don't know that fair use, espe-

cially in this commercial context, would really ever end up being a successful defense.

MS. COHEN: Right.

AUDIENCE SPEAKER: Two questions.

MR. WEINBERG: Okay.

AUDIENCE SPEAKER: Not just one, but—I think—one thing that I wonder about is has a lot of attention been paid to the raising of litigation after protection has gone into architectural works? Because from what I understand, it wasn't as dramatic as everyone feared. And so I think that there's probably a great likelihood that, you know, this act wouldn't raise litigation to be feared at levels either. But I mean my—I have actually two questions.

MR. WEINBERG: Well, I just want to confirm that in fact there has not been a significant rise in litigation, either on the architectural works on vessel hulls, that's correct.

AUDIENCE SPEAKER: And I guess the point that I think of when Arlana is speaking is that really what I think most designers are looking to protect is more of what's on the line sheet, which is like when they're doing a design, it's kind of like a coloring book illustration or how the scenes fall, how you use the fabric, not exactly the pattern, but like how it's going to look when you're finished with it.

And so in situations like that, it's not necessarily, oh, the 10 percent of dresses that do or don't have a print. It's how this is going to fall and how you bring the fabric into a certain place. And so I just kind of wonder how many designers have been consulted in the actual drafting of the act?

MR. WEINBERG: That's an interesting question. Just so I can frame it for everybody, it's not so much the design, per se, the silhouette of the dress, but it's almost—its architecture, its flow, all the elements, many functional elements in a sense that are incorporated into the overall art. Alain.

MR. COBLENC: Well, yeah, I mean this is precisely why our bill provides that color, print, material itself, has nothing to do with whether there is an incident of plagiarism or not.

And as far as finding out whether designers have been involved, I mean, I'm the general counsel of the Council of Fashion Designers of America, and, you know, we've been working on this for two years—three years almost. And so obviously yes, there's been a lot of back-and-forth, including on the draft.

MR. WEINBERG: Sir, did you have a question?

AUDIENCE SPEAKER: Yeah. I just—actually, I have two—one point and then one question. The point is I

actually—I think I would take issue with something that was said. I would be surprised if the majority of design pattern knock-off issues had a pattern that was independently protectable under the fabric design sort of copy-right protection.

A lot of—I don't want to say majority because I don't have numbers or anything, but I'd be willing to bet the majority of dresses that are knocked off are not protectable under the fabric design. They're protectable—I mean if you go back to the dress, the red one, whether or not that's an infringement on this analysis, that certainly—there's no fabric design there that would be protectable. There is clearly a dress design there that may or may not be protected under the new statute.

The question I have is actually—that I haven't heard anything directly speaking to the sort of idea/expression dichotomy that lives in the heart of copyright.

And we talked about inspiration; we talked about design trends. I don't know, I think the design pattern, for instance—the design pattern approach would overlook that and this would be a clear infringement on the design pattern.

I don't know how it would come out under the new statute, but I think that—speaking on a totally personal level and not, in fact, the level of my clients, which would all say yes, that's total infringement. But I mean I would look at that and see an idea and expression problem, or even the shoes, I would see idea, an idea/expression.

That's the—you mentioned that you've written the derivative works, you know, the sort of cease-and-desist Bigfoot letter: "Please stop that; you're infringing on derivative works of my client." I've written those letters. I've also received those letters, and when you receive those letters, your immediate answer is "no, it's idea of expression." And that's the tension that always exists, and I haven't heard that be addressed and I was wondering how—

MR. WEINBERG: I thought it's kind of funny in the fashion industry because, you know, probably the best-known dress of all time is the little black dress that Audrey Hepburn wore for Chanel. So, you know, there's a little, simple little black dress, but yet it's a monument in the fashion industry, so it gets kind of interesting. Alain.

MR. COBLENC: I don't want to lose the perspective of this—of the scope of the bill. I mean we're all talking—for the last hour and a half, we've been talking about

dresses. I mean this bill protects all fashion objects. And if you look at the statistics of registrations in Europe, it is the vast majority of protection and registration of handbags, of leather goods, of glass frames, eyeglass frames. And, in fact—maybe as a recognition of the fact that

there's less and less original dress design these days—in fact, the vast majority of the objects that we want to protect, that the industry wants to protect, is not clothing; it is the accessories. And don't forget, there's a shelf life for a handbag, which is slightly longer than the shelf life of a dress. And this is where the economic factor comes in. I mean, yeah, okay, protect dresses and, you know, evening gowns is one thing, but

what is really important economically for these companies is to protect their handbags.

MS. COHEN: That's already protected. I mean I would think they have a hard—

MR. COBLENC: They're not.

MS. COHEN: Well, you buy design patents. People have been getting design patents for pocketbooks forever. I would think you'd have a hard time arguing to Congress that you want a new act when you already got one.

MR. WEINBERG: Yes.

AUDIENCE SPEAKER: Can we stop with design patent? Because I think that most—I mean, yeah, we understand, design patents protect that, but, number one, most lines—and I'm actually not, I'm on your side of this, but still, most lines are multiple items. It can become prohibitive. A line has a lot of units in a line. There's 15, 20, 30, 100, whatever, that turns into a lot of design patents. That alone for most of the designers who are my clients, would end the argument.

MS. COHEN: But that's not a definitional or constitutional issue. We can, therefore, just say we want a shorter, quicker, expedited, cheaper design patent. I mean that's just logistical. That's not definitional or going to the heart of what the grant is.

AUDIENCE SPEAKER: I think the novelty is also a problem with regard to the current fashion designers.

With regard to Mr. Coblenz, though, the time question is actually the follow-up question: Since the current knock-off cycle is, in fact, much less than we're used to. The current knock-off cycle is not even dresses, handbags. That handbag comes out, it's knocked off within a week. It's back in the States a week and two days, right? And then it's sort of that long tail; it shortens out pretty quick.



I don't know why two-and-a-half, three years would be the cycle, whereas the current cycle—if the goal is to allow the designer to knock himself off or herself off. Since the current knock-off cycle is a year, really, I mean there's a long tail, but other than that, really the heart of it is that first year. Why should the protection on the new statute be longer than that?

And I'll just flag my underlying concern. My underlying concern is that in America, at least, in the United States, a copyright, once you get a little bit, they tend to push it longer and longer and longer. And so we're getting the Sonny Bono first copyright extension act.

MR. WEINBERG: What would—okay, so the question then becomes is two-and-a-half—what's too short? What's too long? Is two-and-a-half years too long?

MR. COBLENC: Well, you know, as I explained it earlier, I think that because of the seasonal cycle, if you want to ensure that the designer will have a year of exclusivity from the time he knocks off his own design, then you get to more than two years.

MR. WEINBERG: And also, you have the younger people, right, the up-and-comers I mean, are just not going to have that kind of cred to get a licensee—

MR. COBLENC: Well, that's true.

MR. WEINBERG:—to come out. They're going to use the first year just to get enough publicity to get a licensee interested. I think we're coming to the end. Are there any more questions? Sir.

AUDIENCE SPEAKER: I wanted to ask a question about the contributory infringing aspect because as I was reading the materials, a lot of these things are being imported, you know, from China and other places. I'm wondering if there's any contributory infringement liability for, say, the actual people who are receiving the imports who are then planning to market them, you know; if there're any instances where you can actually show that—

MR. COBLENC: Know—reason to know that, yeah. It's all in there, yeah.

MR. WEINBERG: Yeah, but the best thing really is if you know they're being imported. If you can get Customs to work for you, you've got a 90-day TRO, you get them to keep it offshore. It takes 30 days for the other side to talk to you. You got 30 days back. You've effectively gotten a 90-day TRO without doing anything. It's extraordinary. So I mean it's very—it's really—and you can register copyright under the import law as well. And people like Mattel and others use that extensively.

So it seems that what we're coming down to is a consideration of essentially two laws to focus on now. One is a change to the patent law which would eliminate

the entire functionality useful article issue altogether, but we'd have to make it in a way that is easy and inexpensive to get so that all of the potential beneficiaries are, in fact, able to gain the benefit. Because let's face it, a patent application in these days—\$2,000 against a \$45 fee. And to your point, we're not just talking about individual garments. We're talking about, generally, collections. We're generally talking about lines, so we have multiple different designs that are involved in any introduction. I mean we've all seen what the runway looks like, right? It's one design after the next. We're talking about expense.

And the other thing is, is this a time on two fronts to be acting on the copyright law? One is just recognize that some works of art are, in fact—even if they perform a function—are works of art and should be protected that way, and should the system be made easy. Which also means, of course, you know, making clear to the Copyright Office that they have to start deciding about are we going to keep examining or not examining, to which degree do we want to examine or not examine, which has been kind of interesting over the years.

Certainly, our current Register would prefer, in many instances, to get fashion protected. In fact, most of the Registers throughout history have wanted to do that, so perhaps they'd reform the Copyright Office to do this.

But in any event, I think we all agree that real fashion, like real architecture, like other works of art, should be given some form of protection. The question is, is how do we keep the marketplace in competition going because, again, any time you restrict rights, by intellectual property law or otherwise, there are some groups of people who are going to be economically, negatively impacted.

I'm not worried about so much the counterfeiters, because the counterfeiting is illegal; it's piracy; it's terrible stuff, as we all know. The question is more about our friends who work on Seventh Avenue and Broadway and in the LA Mart and in Dallas who are trying to benefit from a trend, so to speak, but at the same time, have to respect intellectual property rights because they'll be the first to scream if, in fact, they think that they need something protected.

So the focus—and this is important because we, as a community, need to have a dialogue on this because we're going to see more and more of it. It's the time for fashion now, right, and I think that we really should be talking about it and focusing on it.

I'd like to thank our panelists today. This was an awful lot of fun and was great.

MR. WEINBERG: I have a new respect for patent lawyers, and I'd like to thank you all for joining us today. Thanks.

Panel II.

Film Tax Credits: The Reel Way to Lure Hollywood out of Hollywood

MS. GRECO: I'm going to introduce Sue Bodine, who is our moderator for this panel. And Sue is going to introduce and give a little bit of background on what our second panel is. Sue.



MS. BODINE: Good afternoon, everybody. So our panel this afternoon is going to be about the various tax credit schemes that a lot of the states in our country have now passed or are in the process of passing or have passed and then unpassed and so forth.

And for those of you who work in the film industry at all, you probably are aware of the fact that over the last few years, I'd say the last decade, maybe, that it's become something that's—six or seven years, that this has become an area of not only great interest, but also become very important to independent producers and even to studios in deciding the locations for where they're shooting. You know, many other countries have had these kinds of things for years.

Canada has always had various kinds of tax rebate systems and at the federal level as well as the provincial level. In Europe, they're quite common. Almost every country has its own subsidy system of one kind or another, and there are various code treaties and co-production treaties and so forth between countries. And the tax element has been an important aspect of how to get films financed in a way that was never true in the U.S. But over the last, as we're saying, last six or seven years, that's really changed. New York, I think, was a pioneer.

MS. KAUFMAN: Well, I've got to give credit where credit's due. Really, Louisiana—

MS. BODINE: Louisiana, okay.

MS. KAUFMAN:—and then New Mexico.

MS. BODINE: Okay. And then New York.

MS. KAUFMAN: And actually, then even Illinois, but then we came through.

MS. BODINE: Pat will talk to us more about the New York credits, which have become very important.

And so these tax schemes have become something that every producer that's going to shoot anywhere in the U.S. is going to try to understand and take into account and hopefully use for their benefit. So that's really overall what we're going to be talking about on the panel today.

We're going to try to keep it at a basic enough level so that for those of you who are not practicing in this area, it can still be of use to you in terms of getting an overview of how film financing kind of comes together today. But we are going to be concentrating on this aspect of things. So if there are questions, we'll leave time for questions at the end, and if there are concepts that haven't become clear, then, obviously, we welcome your questions about that.

So the way we're going to do this is that each panel member is going to speak for a short period of time on various aspects of this topic, and then we're going to have a little intra-panel Q and A time to just kind of bring out some of the aspects of things that maybe that person might have some expertise on. And then we'll try to leave about 20 minutes or so at the end for audience questions, okay. But we won't take questions in between the panelists. We'll wait until the end.

So first up is going to be Marc Jacobson, if that's all right. The bios of everybody are in the book, so I'm not going to bother to tell you lots about everybody. But Marc is an attorney who practices in the area, does a lot of film financing work and has for many years, and is probably somebody very, very familiar with the way that the changes that happen when these kinds of tax programs came into effect. Okay, Marc.



MR. JACOBSON:

Thank you. Good afternoon. Thanks for sticking around. One of the things that the United States government addressed recently, well I guess when Bush was about to be reelected, was what they called runaway production. At the time when this law was first enacted,

people were concerned about U.S. productions running up to Canada where there was a lot of tax benefit and a lot of good crews available, and it was relatively simple and inexpensive to create what looked like U.S. locations in Canada. So the federal government went after that and adopted these rules to fix old rules with respect to film financing and how it's treated for tax purposes.

Under the old regime prior to 2004, there was an awful lot of complexity in how films were accounted for and what happened to them on people's tax returns.

The difference under the new rule is that it's very simple; it's very straightforward, and the practical effect is that it's possible for an investor to be in profit on a picture well before the picture actually reaches net profit. And what should have happened, and I'm not sure that it has happened, and Steve and Bruce could probably talk to that, and Pat for sure can talk to that, would be that

there should have been more investor capital available. Because, in essence, it allowed people to deduct their investment in the film in the year in which the investment was made. So instead of capitalizing the asset and then depreciating it over a period of time, which period of time was flexible and the amount you could depreciate over a year changed based on the picture's success, this provided a lot of certainty to what happened.

So you probably are all relatively familiar with what depreciation is, and I'm not going to talk about that. But under the old rules, they were depreciated over time, which had the effect of reducing the tax bill and making it possible for the owners to simply deduct their investment over a period of time.

Unlike most other assets, it was not depreciated on a straight-line basis where the depreciation was the same every year, but rather, it was on a 10- or 15-year cycle and it was front-loaded because most of the income was going to be generated in the first year or two, and that was called the income forecast method. So—but as you can see in the name, you're forecasting the income. If you forecast the income and you're off, you've got to go back and readjust it.

So it was very unpredictable, and so Congress adopted 181, which provided that films are still capital assets, and for certain people, 100 percent of the investment in the film, provided certain conditions are met, would be deductible in the year invested. That's rather a remarkable set of tax rules for a whole industry.

Imagine if you were in the real estate business and could deduct 100 percent of the cost of your building in the year you built it, it's extraordinary. So there was a lot of thought about doing this and they did it, and in the United States it applies to virtually all audio/visual pictures, whether for television, for theatrical, for straight to video or DVD, as it was video when it was called in 2004. It doesn't apply to certain sexually oriented content, but even this new statute is complex, but the way it's finally worked out, it starts to make some sense.

Under the original rules in 2004, there was a limit of \$15,000,000 that could possibly be deducted. That limit stays in effect now here in 2009, which is really the last year of this. But the difference is under the old rule, if you paid someone a profit participation and the picture costs say \$12,000,000 and was a huge success and that person's profit participation wound up being say \$4,000,000, the \$4,000,000 was added back to the \$12,000,000, you then exceeded the \$15,000,000 ceiling, and, as a result, all of the deductions then disappeared. It was also impossible to predict it, which may have been why it wasn't so actively used.

Today, it's much simpler. What happens is that the first \$15,000,000 of costs is subject to the law and can be deducted under the right circumstances. So it's sim-

pler; it works. In that prior example, if the picture costs \$12,000,000 and the guy earned \$4,000,000, then another \$3,000,000 would be deductible.

There are rules you have to follow: 75 percent of the total compensation has to be for services performed in the U.S., excluding Puerto Rico. Puerto Rico has its own very attractive film and tax program, which may be why they excluded it. And for this purpose, which I'm sure Bruce and Steve and Pat will get into, it's all above and below the lined personnel. So it's—the whole cost of the picture. If you shoot 100 percent of your picture in the U.S., it's conceivable that 100 percent of the cost of that picture could be deductible from the investors.

In the material, there're some further limitations that are discussed. But what I wanted to get to really is a couple of key points.

First, the deductions have to be limited to the owner of the film. So typically, you set up an LLC and someone is the managing member of the LLC and you get a bunch of investors into the LLC. The benefit flows to the LLC out to the individual investors, assuming the LLC is elected to be treated as a partnership and not as a corporation. So it flows right out to the individual. So if you have someone who is—the key here also is the type of investor it is. I couldn't pick up this deduction unless I was actively producing the film because an investor who invests through this and seeks the deduction under section 181 must have passive income equal to the amount of his investment. Passive income is not dividends; it's not interest. Basically, it's rental income and royalty income, and any tax lawyer will start to tell you, "Well, it's this, it's that." It's rents and royalties.

So if you are representing a film producer who's looking around for money, you might want to suggest to him that this tax benefit is available to investors that he or she might bring in who are real estate investors, who might be music or prior film investors who receive royalties, or oil and gas folks. But if they have a lot of municipal bonds and are just collecting interest on them, it doesn't work.

So they have to own the film, and the process of taking this deduction actually happens on the individual's tax return, so he just makes an election, says, "I hereby elect to deduct what I invested in the film on my tax return."

What's really fascinating is on page 9 of the Power-Point presentation. If you assume that there's a \$2,000,000 film and there are 20 investors who have each invested \$100,000, each with passive income in excess of \$100,000 this year, and all the costs were incurred this year, each investor can deduct \$100,000 on his 2009 tax return.

So if there is a New York City resident, in effect, he puts in \$100,000, he gets to deduct the \$100,000, and by virtue of the combined federal and state brackets, he's

effectively getting a 44 percent benefit immediately, so his real cost in investing in the picture is \$56,000 because the government has allowed him to deduct it off his income tax return.

So what that means is—remember, our picture costs \$2,000,000. Let's suppose they're trying to license it this year, and everyone who's been to Sundance will say it was kind of a difficult year. If they licensed the picture for \$1,500,000 and assuming no other overhead costs and no other charges, this is really simple, but you spent \$2,000,000, you got a \$1,500,000 in, you had 20 investors, each of the investors now receive \$75,000 from the \$1,500,000 licensing fee. Well, the investors are now in profit because they put up \$100,000. They got benefit of \$44,000, and they've now received \$75,000 in cash. So, in effect, the investors are in profit. The picture still is 25 percent unrecouped, and the investors are happy, but the picture still lost money. So it's very possible that this could work very, very well for any investor who can benefit from the deduction.

Note that none of the net profit participants in this scenario have received any net profit, so the picture's in profit for the investors, but not for anybody else. In theory, this should make more equity funding available. Had they done this in 2004 and fixed the problem with regard to contingent compensations so it didn't go over the \$15,000,000, it might have worked. The problem is that the current law expires on December 31, and the picture has to start production before December 31 to be eligible for this. So that's basically the presentation.

MS. BODINE: Thanks, Marc. A couple of questions that I would have. What's the prognosis for a re-upping of this program, and do you think that there's any chance that they would actually improve on it?

MR. JACOBSON: I haven't a clue.

MS. BODINE: Okay.

MR. JACOBSON: But if you look at the current economic environment, it strikes me that this would not be something that Congress would want to say, "Yeah, let's give more tax breaks to the rich folk" while we're in a trillion dollar deficit or where we are. But I don't know.

MS. BODINE: And how—so how's it been used, you know—my impression is that it really has not kind of been used to its full potential.

MR. JACOBSON: Right. We're supposedly the largest entertainment law firm in the world, and the answer is we don't use it very much either. I think that the reason really has to do with the fact that it was so uncertain until the first of this year as to what the availability would be based on the fact the residuals and participations could put you over the limit and take everything away. So now we have a one-year window in which to do it, and we are

right now actively trying to do this on a fairly substantial film.

MS. BODINE: Okay.

MR. DEICHL: There have been some large syndications to the tune of \$100,000 at a crack that were put together by a firm here in New York and sold to a couple of the large banks, totally circumventing the intent, which is now under scrutiny. This is really done for people like Pam that's going to do a \$10,000,000 movie. It's made for an independent that's going to do a \$10,000,000 spend, a \$4,000,000 spend, and they need a whale investor to put up the money, and it's an incentive. You put up this money, you're going to be able to write off a good chunk of it right out of the gate, as Marc was saying. They'll give you a chance of making money or at least recovering most of your investment, so it's to help the producer to get the deal done.

MS. BODINE: All right. Well, Bruce, as long as you're speaking, let's have you speak.

MR. DEICHL: As long as I interrupted everybody? Can I ask everybody in the audience, how many—just raise your hands. Have you been actively involved in state incentives in the film market? Okay. Let me just discuss for a minute what these incentives are all about.

Now Pat told you that it started with Louisiana about seven years ago. And by the way, prior to that, Louisiana was total spend of filming when Louisiana was about \$10,000,000 a year. So with all this runaway production like Marc talked about, going up to Canada to the tune of \$10,000,000,000 a year, and they went up to Canada for two reasons: the cheap Canadian dollar, and then, secondly, if Disney went up there, spent a hundred mil, when they finish, they get a check for \$25,000,000, thank you very much for coming.

Now why would Disney do that? Because it was cheaper to schlep everybody up there than to film in their studios in Hollywood. So it worked.

And why did British Columbia, Vancouver do it? Because they felt that for every dollar spent in the community, they would get a benefit of roughly three times, so \$100,000,000 spend would return by the time it went through the hotels and the restaurants, the lumberyard, the car rental companies, whatever, would return about \$300,000,000 in positive impact to British Columbia.

So for the last 10, 15 years, if you look at the rolling trailer, at the end of almost every major movie filmed in British Columbia, filmed in Vancouver or New Zealand or UK or whatever. So the lightbulb went off in Louisiana about seven years ago, and, as I mentioned, they were filming about 10 mil a year total spend. Last year, Pat, what, a half a bil?

MS. KAUFMAN: Probably.

MR. DEICHL: Yeah, probably a half a billion dollars last year alone. In the meantime, studios are being built. They're teaching people. They're creating jobs. Now Pat doesn't have to worry about it because she's number two in the country. She's got the infrastructure. She's got—

MS. KAUFMAN: That's behind California, not—



MR. DEICHL: Behind California only because they typically have about 60 percent of the market. But there's been a frenzy over the last six years with every state trying to keep up with the Joneses. Today, over 40 states have some type of incentive. Now incentives are in one or two basic forms.

Either it's like Canada, where you get a rebate where they write you a check; or in the case of Pat, where you file your tax return and you get a refund, or tradable, a tax credit, where you get a piece of paper, then you have to come to schmucks like me to sell them.

For instance, Disney, when they filmed *Annapolis* and *Invincible* in Philadelphia—by the way, the movie *Annapolis* was not in Maryland; it was filmed in Philadelphia because of the incentive. Well, they don't pay tax in Pennsylvania, so they come to people like us and we monetize it. We'll sell it to a taxpayer in that state and give them money as a result.

So of the 40 some states, 14 are tradable where you have to monetize it. For instance, Rhode Island, Massachusetts, Connecticut, New Jersey, Pennsylvania, Illinois, Iowa. Iowa is a sleeper; Missouri, Louisiana, Puerto Rico, Arizona, and now Alaska.

There are probably four states with legislation pending that are trying to open up the gates to compete with Pat because she's stealing all the money now. So there's two types, and each one is different.

And what's incredible about the business is as you analyze each of these states that participate, no two are the same in anything. So it's like trying to make a decision for the producer as they analyze their budget. Well, geez, now I'm looking at Iowa versus Illinois or New York, two are tradables. What's the market value of that credit when I want to sell it versus 100 percent rebate from the state? Does it carry above the line meaning talent? Are they included in it? New York it isn't, but they have a very nice 30 percent state credit and an extra five percent New York City credit for all below the line. So everybody has to analyze it.

Now some of the studios like Disney probably have 30 people, that's all they do is analyze it. Plus, they've written probably three-quarters of the legislation. For the typical producer, they don't have the manpower. They can't afford it. So there are people like us that have analyzed every state, and we work with you. We work with entertainment attorneys. That's how Marc and I met. We work with people like Steve Hays that lends against it. He'll call up, "Bruce, what's the market in this state? I'm looking at lending on a project," you know. "What can we get for that credit when it's time?" Capacity is an issue. Some states don't have a lot of buyers. Some have a very small corporate tax base, so adjustments have had to have been made.

Some states are whales. New Jersey, I could sell \$200,000,000. We pay top dollar. Some states you can't give them away. Some have recapture. This time last year, the 14 tradable states; seven states had recapture.

What does recapture mean? It means in the infinite wisdom of an illiterate legislator, they want to retain the right—I hope there's no legislators in here. They want to retain the right to take that credit back from a good-faith buyer in case they made a math error, in case it was fraud. It could be for almost any reason.

Now, if you're a buyer up on the 32nd floor of a major corporation, are you going to risk your job if five years from now that state can come back and take that credit away? So a lot of what we've done in the last four years is we've had legislation changed in five of those seven states to get rid of recapture because that's the kiss of death. Nobody wants to buy it.

We're down to two: Georgia and Rhode Island. No corporations really pay tax in Rhode Island, so it's really not an issue. And Georgia, we're working with the senator there to get that removed this session. And that's a lot of what we've been doing, trying to standardize certain things so that the producer knows, geez, from state to state pretty much what the ground rules are. But it's a fascinating business.

And my first introduction was four years ago at Loyola Law School, and Paul Steinke from Disney was on the platform. Pat Crowley who did *The Bourne Identity*, Brenda Sexton from Illinois Film Commission, and I'll never forget, this was just four years ago. They had the PowerPoint, they showed all the states with incentives, but they also showed what the pecking order is making a decision of where to film. And remember, this is just four years ago. Number one was the director. He was God. He told the studio where to film. Number two was the talent. Talent always had a say. For instance, on the movie *Doubt*, Meryl Streep didn't want to leave within 100 miles of New York. You know, there are certain things like that.

Thirdly, whatever, whatever. Tax incentives was number four. Last year, same seminar, number one was tax incentives; number two was tax incentives; number three was tax incentives. Oh, yeah, the director was number four. The whole industry has changed.

You know, you saw that Deutsche Bank pulled out a \$400,000,000 line out of Paramount. You saw that a lot of the hedge fund—Citibank pulled out a chunk, a half a billion I heard recently. Money is tight. The economy is tight.

So now, the difference between getting a film made or not made is the incentive. The good news is all this run-away production is coming back into the U.S. And you could see how, Pat; and I hate the word “scheme” in case there’s a legislator here. We’re very protective on that.

MS. BODINE: Well, you know, that’s a UK thing.

MR. DEICHL: Is it? Well, we have to be very careful.

MS. BODINE: Yeah. They don’t—it doesn’t have the connotation there that it does here.

MR. DEICHL: Oh.

MS. KAUFMAN: We’re all here going—

MS. BODINE: Oh, really?

MR. DEICHL: Yeah. We’re like this.

MS. BODINE: Oh, no, no. In Europe, you know, tax scheme is like saying tax program. Okay.

MR. DEICHL: Oh. See, our big battle now is to try and keep all these programs intact. In this economy, the legislators that don’t understand the return on capital, return on investment, they only look at it but, geez, we’re giving Brad Pitt X amount of millions and Johnny can’t read or we can’t make our state education payments. They don’t look at it that it’s the cleanest incentive stimulus package you can have.

So we’re fighting now to keep these programs intact because every government is under it. In fact, in New Jersey and Missouri, we’re trying to increase the program because it’s a faster return. It’s green, and any other program you can have, and you guys all saw, what was it, last month, that 41 governors went to Obama and said, “We need money for infrastructure, bridges and roads to get this economy back going.” When are you going to feel the impact on that? Three years from now or four? This, you can have an impact in six months, right? How much money went with *Ugly Betty*? What’s that spend in New York roughly, do you know?

MS. KAUFMAN: *Ugly Betty* is—of course, I’m not allowed to say.

MR. DEICHL: Okay, excuse me.

MS. KAUFMAN: But many, many, many millions. *Crane’s* had an article just a couple of weeks ago about job creation in New York, and in a sea of job losses, many of you live here, you know, in a sea of job losses, there were two industries that were actually creating jobs in New York; one with health services and the other was film and television.

MR. DEICHL: And what?

MS. KAUFMAN: The only two that were creating jobs.

MR. DEICHL: And why did Pat get *Ugly Betty*? It’s because they just tripled the incentive and California, which has 60 percent of the market, doesn’t have an incentive. Money talks. Things are so tight that people have to make decisions based on where they get the best bang for the buck.

Programs are incredible. Massachusetts, for the last seven years, had a total spend of 10 mil a year, and you’re talking *Departed*, *Fever Pitch*, *Gone Baby Gone*. They did the surface scenes and everything else was up in Montreal or Toronto.

MS. KAUFMAN: Well, *Departed* was shot almost entirely in New York.

MR. DEICHL: Oh, was it? Excuse me, I lied.

MS. KAUFMAN: Yeah, but we cheated for Boston—

MR. DEICHL: Okay.

MS. KAUFMAN:—and then they went up, did a little bit in Boston.

MR. DEICHL: Okay. But you would think they won the Oscar, you’d think that was a purebred, 100 percent spend. Uh-uh. They went where the bucks were.

Nick Paleologos, the Commissioner, got legislation changed last year, and in the 12 months after that, did over a half of billion dollars with *Pink Panther 2*, *Movie 21*. Paramount did *Ashcliff*, which was *Shelter Island* with DiCaprio. It changes the state.

Missouri right now, I got emails from some of our buyers out there. They had 1,500 people show up in a mall for a casting call for, you know, background people to do that George Clooney movie; and Jason Brightman who did *Juneau*, Paramount is filming that in St. Louis. We’re doing an economic impact study. What’s the effect of 12 mil spent in St. Louis over a period of three months? We’re going to use that to try and sell the legislature to increase their program from four and a half million up to 30 million. We still won’t be able to compete with Pat, but for a Midwest state, that’s going to—it’s incredible.

Articles every day in the papers, you know. Pat's used to it. She gets bored because of all—everything going on in New York.

But anyway, that's a quick—what the effect is, and you'll see a lot of articles, a couple of good articles in the *Times* this weekend. Follow it, you know, but keep an open mind. Don't listen to the naysayer or legislators that can't stand it. They tell you it's going to the rich. It's not. It's creating jobs. It's clean. It is an economic stimulus package and better than anything out there. Enough. Sorry, guys.

MS. BODINE: That's all right. Bruce, can you describe maybe—I know Pat will get into the specifics of the New York program, but that's a non-tradable program.

MR. DEICHL: Right.

MS. BODINE: So maybe you could describe just, you know, give the overview of a tradable program, just any one, just in terms of what it looks like in terms of the limits and what the qualifications are. I mean not to put you on the spot about it, but just to kind of describe the difference between that and what Pat's going to talk about.

MR. DEICHL: Every state is different, and we got involved in tax credits 11 years ago under Whitman for tech and biotech companies. A lot of people ask, "How in the hell do you get in this niche?" I mean my daughter keeps asking, "What do you do for a living?" I've told her 20 times, so she tells all her friends I deal drugs. True story. It's great to walk into a college class and they call you the dealer. It's a very small niche.

And like, for instance, in New Jersey, when they passed that law, the seller had to get at least 75 cents on the dollar. And my background is 30 years on Wall Street. So what we tried to do, we did an economic analysis and said these things are worth 88 bid, 92 offered. They're not worth 75 cents. And I had arguments with the head of DOR in New Jersey, Price Waterhouse, economic development. I said, "You guys are wrong because everyone said it's 75 cents." I said "No." Well, it took us a year to do the first trade. It was at 92 cents and we paid the producer, or the seller in that case, 88 cents.

When we got a call for Pennsylvania, that's how we got into film. The head of the Pittsburgh film office called up and said, "I heard your name. We have a client with a couple million Pennsylvania film credits. Can you sell them?" And being an idiot, I said "Sure, what's a film credit?" And that's how I got introduced to it four years ago. And it's the same thing.

Certain states are Triple A, meaning that there's no recapture. There's a good carry-forward to the buyer in case he overbuys. He can take him into the next year, reduce his return, but at least he doesn't lose it.

MS. BODINE: Does each state have a cap on the amount of money per year?

MR. DEICHL: Some do, some don't. For instance, Rhode Island originally had no cap, now it's 15 mil.

MS. BODINE: Okay.

MR. DEICHL: Massachusetts has no cap. Pennsylvania went from a \$10,000,000 program to a \$75,000,000 program. New Jersey's 10 mil. Missouri is four and a half. Illinois is uncapped. Arizona, I think, is what, 40 or 50 mil. So it varies by state.

Now, the market within the state depends on competition. Unfortunately, we've driven the market up for the producer in every state we've been in. For instance, right now in Pennsylvania, although the first trades were at 75, we took it right up to the high 80s. Up is—and will pay depending on who and size, maybe even 90 cents on the dollar. And—

MS. BODINE: When does the trade actually happen with respect to the production schedule? Is that something that happens before production, during production, or after?

MR. DEICHL: There are two facets. One Steve is going to address, because the new game in town is the producer knows he's going to have this valuable piece of paper at the end of the shoot, but he wants the money now to complete the film. And that's where guys like Steve come in. They will lend against that credit up front so you can get the money to finish your picture.

We've worked with Steve and others like him very closely that we placed the credits for them and, typically, we'll do it contract up front so that before Steve lends, he knows that those are sold to a Fortune 200 company so he can monetize at an advance.

As far as we're concerned, our real job comes in at the end. After you finished your shoot, after you've had your audit done, after the state certifies it in blood that this piece of paper is valid, then that's when we come in and we sell it. But more and more and depending on length of time, most people are going to try and lend against it; hence, 120dB and Steve. So we'll try and get a commitment earlier, which is—six months ago—was not a problem.

Now, it's become a very, very big problem because no corporation in this environment knows that they're going to be paying—going to be alive next month, much less pay me tax. Or if you're a major bank and you've assimilated a few Countrywide or Merrill Lynch, you're still trying to figure out where the hell you are, has a major impact on buying capacity. So we're seeing things all over the place. Every day is different. Every day is an adventure.

For a while when the insurance was only a hundred grand, we had companies giving whatever credits I can get my hands on. I'd rather have my money in credits than trying to figure out which bank is going under next week.

So, you know, it's—we're in weird times and every day it's different. But overall, for tradable states, if they're not traded at a high limit, typically we go and get the legislation changed so that they can be the highest because we want the producer to get the money. We don't want the brokers to get the money. We don't want the buyers to get the money. It's got to be fair to everybody, but we've driven the market north in every state that we've been involved in and it's working for everybody.

MS. BODINE: That's good. So all right, let's have Pat. Do you want to talk about the New York program?

MS. KAUFMAN: Sure.

The New York program is fairly unique. As Bruce says, every program is different, but ours is the most different, but in many ways the best because we have New York as our basic product. So New York's program is a fully refundable tax credit. It's not assignable and it's not tradable. And good people like Bruce always come in—and Steve, too, always coming to me and saying, "Can't you make this thing assignable, at least assignable if not tradable?" And so far, no, we haven't been able to switch it to assignable or tradable. But that doesn't mean it doesn't work well because the money that the producer expects to get, he or she gets in full when the project is over because it is a refundable tax credit. There's no haircut that's taken for selling it or signing it to somebody else.

So here's how it works in New York, and I won't get into too much detail, but since it's one of the most successful programs in the country, chances are if you ever are going to deal with film tax credits, you're likely to deal with one that has to do with New York, so it may be worth your while to hear how our program actually functions.

As of April of last year, the State of New York will give back at the end of the production 30 percent of production costs that are done anywhere in New York State as long as the project meets certain qualifications, which I will explain briefly in a minute.

If it happens that the project is in New York City, the City will kick in an additional five percent of qualified production costs. But only three types of production can qualify in New York. We have so much production in



New York anyway that we had to narrow how much we were willing to incentivize.

So the three types of production that may qualify for our program would be narrative feature films, episodic television that is, again, narrative, scripted narrative episodic television, and the pilots that can lead to narrative episodic television.

So the *Law and Orders* of the world, the *Ugly Betties* of the world, the *Gossip Girls* of the world, *30 Rock*, they can all qualify for it. But a talk show or a reality show or some sort of documentary show, cannot qualify for it. And, by the way, that also means feature docs cannot qualify because, again, narrative, narrative, narrative, narrative is required in our program.

So those are the kinds of programs that can apply. And if they do apply and they meet our qualifications, here's what will be included as a qualified cost. Almost all of the below-the-line costs—this is all in your book starting on page 70—something. Almost all of the below-the-line costs, as long as they're incurred in New York, pre-production, production, and postproduction, if they do their postproduction in New York, will be included. And for those of you who aren't as familiar—and I think Bruce has already sort alluded to this—below the line means the crew salaries, the fringes, the meals, materials, trucks that are rented. We even include the background talent, meaning the extras, the office space, the support staff, building the sets, that sort of thing.

And, by the way, in our program, unlike some other programs, the people that you hire or that the production hires, do not have to be from New York. We base our concept on an old tax concept called Sales and Use. It doesn't matter where you buy the materials or where the people come from. What matters is where they were used or where they worked.

So we would include a DP from California, a grip from London, crew from New Jersey, that's all fine as long as they are doing the work in—somewhere in New York. So it's sales and use; it's where the work is done or where the object or item is used that determines whether or not it will be qualified for our incentive.

What we exclude would then be the above the line. And, again, for those of you not familiar with the terminology, above the line means actors with speaking parts, producers, directors, writers, basically. It's that crowd. We do not include them in the credit. Most, just about all of our competitors do include above the line. We don't, and we don't include sort of what we consider non-production costs like insurance, rights, fees, and bonds—that sort of stuff.

Even though we don't include above the line, whereas some of our most serious competitors do, Connecticut

for one, does—is one of our most serious competitors, we feel that the package that you put together by being in New York is so attractive that the fact that we don't include above the line, we are still very, very, very competitive, because you get New York; you don't have to do all that traveling, living to bring all your crew in because we have all the crew. You can get all your postproduction from us.

Yes, Connecticut and other states say that they cover post production, but they don't have the postproduction facilities. So we say we cover postproduction and we have the world's best postproduction facility. So it works quite, quite well in New York.

And the other requirement, threshold that every production must reach in order to be a part of our program, is that we do have a requirement that every production must shoot at least one day on one of our qualified stages. The language is a little more complicated. It talks about how 75 percent of all stage-related costs must be on a New York-qualified stage, but what that boils down to or drills down to is that they pretty much—as long as they don't shoot on a stage somewhere else, as long as they shoot at least one day on a qualified stage in New York, they're golden and they're in the program.

Then the second line to that is—and if they do—once they shoot on the stage in New York, if they spend \$2,000,000 at that stage—including all the related costs at that stage—if they put their offices, their production offices at that stage, then the production office costs, the salaries of the people who work in the production office, everything that touches that production office in that stage gets counted. If they spend \$2,000,000 at the stage, then whatever else they do in New York will also qualify. If they don't spend \$2,000,000 at the stage and say it's a small movie that its whole budget is \$2,000,000 or its whole budget is, you know, \$500,000 and all they're going to do is struggle to do that one day at the stage, that's still fine as long as they do the one day at the stage. But then they also have to shoot 75 percent of their location days in New York.

If they want the city credit, it's got to be in New York City. As far as the state's concerned, as long as it's anywhere in the state, you'll get the state's 30 percent.

So it's very simple: You shoot one day on the stage. If you spend \$2,000,000 or more at the stage facility, then it doesn't matter how many—you can shoot your locations anywhere—but whatever you do in New York counts. If you spend less than \$2,000,000 at the stage, then you do have to shoot 75 percent of the location days in New York.

Classic example was *Sopranos*. They shot at Silvercup Studios. They had no trouble meeting the \$2,000,000 requirement for the work they did at Silvercup; therefore, it didn't matter to us that they probably shot 80 percent of

their location days in New Jersey. The 20 percent that they shot in New York they were allowed to claim the New York credit for that amount.

You may have read over the weekend about a big [film] that's just starting with Robert Downey, Jr., it's *Sherlock Holmes*. They're actually splitting that shoot between London and New York, and they're doing their stage work in New York and it's weeks of stage work, so they are certainly spending \$2,000,000, but we've cautioned them and they're being very careful to make sure that they don't do anything on the stage in London that would disqualify them.

So they're doing most of their location work in Great Britain, and they are doing all of their stage work in New York, so it's working very well for them.

One more thing, in order to get into the program, productions have to apply, so if you're advising someone, make sure they know that they have to apply for the credit; they have to send in the initial application to us at least a week before the first day of shooting because we have to have time to evaluate the application and have a meeting with the production before the first day of shooting. And assuming that they are able to show us based on their budget and their plans that they are going to do, what they must do to meet our thresholds, we will give them what's called a Certificate of Conditional Eligibility, which says that assuming you meet all the conditions and requirements, you will be in the program.

Then when the production finishes, after they've completed all their editing, they turn in what's called the final application in which they go back and review. They go back through the budget again and demonstrate to us how much they spent in New York and how they met our requirements. And after that is reviewed, we will send them a Certificate of Tax Credit. That Certificate of Tax Credit will then be attached to the tax returns, to the applicant's tax returns for the year that the production finished.

So if you're doing a film that's going to finish editing in calendar year 2009, the applicant will then get the credit certificate, and when the production is over, and then when the applicant is paying his or her taxes for 2009, they will attach the certificate and get the credit from New York State.

If the applicant owes taxes, New York State taxes, the credit will first go against taxes owed, which usually these applicants are cleverly setting up so that they don't owe taxes, and then whatever is remaining, they get back as a full refund.

The program has been enormously successful. Just since we increased the state credit from 10 percent to 30 percent, which, as I said, happened last April, Governor

Paterson signed the new legislation in April. Since April, we've received more than 100 applications in the new program. I think at this point it went up to like 107 applications in the new program. Those 107 or 108 projects are going to spend \$1.9 billion in New York this year and next year. I mean some of these projects go into next year, but that's \$1.9—which gets back to your point about how much work these projects bring in.

So they're going to spend \$1.9 billion. They've created thousands and thousands and thousands of jobs. So it's been a great—and *Crane's* confirms that it's the one area other than healthcare services—it's the one area where jobs actually are being created in these extremely, extremely difficult times. So that's the nature of the program, how it's set up and how it works.

In anticipation of the question that I know is coming, however, the program is so successful that we are running through our allocation, so the program does not sunset until 2013; however, we are rapidly running through the money that's allocated through 2013 because we have something called rollover. If we finish one year's allocation, we just move directly into the next year's allocation. So we are looking to and hopeful that we will have funding extended during this next legislative session.

MR. DEICHL: Can I interject for a second, because I know there's some devious minds in this audience, and when Pat said about the *Sopranos*, I mean we all know that that's a New Jersey flick, right, New Jersey show, so I know the devious minds are saying, "Wait a minute, if that's—they're getting New York credits, are they also double dipping in New Jersey?" See, you're smiling. I know you were thinking it. Actually, the answer is no, because they could not qualify for New Jersey because New Jersey's rule is you have to spend at least 60 percent of your spend in New Jersey. So they couldn't get both New York and New Jersey, so there are some checks and balances.

Now, on the other hand, we did get *Law and Order SVU* because they did make the 60 percent, but I don't think they qualified for you.

MS. KAUFMAN: No. They do their stage work in New—that's the one. That *Law and Order* does its stage work in New Jersey.

MR. DEICHL: New Jersey.

MS. KAUFMAN: The other two *Law and Orders* do the stage work in New York, so they get the New York credit.

MR. DEICHL: Okay.

MS. BODINE: So—but in theory, if they could figure out how to qualify for both, they could get both, so there's no actual rule about exclusivity. It's just that it's hard to actually qualify for more than one state.

MS. KAUFMAN: And the London Film Commission and I have been talking for several years about trying to help producers on both sides of the pond to understand how they could use both. We're not opposed to that idea, so—

MS. BODINE: Right.

MR. JACOBSON: I'm working on a film that's going to start in about three weeks that's going to pick up Section 181, sale lease in England, Michigan credits and Connecticut credits.

MS. BODINE: Wow!

MR. JACOBSON: It's practically free.

MS. BODINE: I guess the director didn't have a lot of say about where it was getting shot.

MS. KAUFMAN: The guy's got a green eyeshade to make all the decisions now. There's no question.

MS. BODINE: Well, I remember a number of years ago that I had a client who was trying—the very early days trying to qualify in the UK and also for, maybe it was Louisiana. The screenplay took place in Georgia and North Carolina, and the director was like, "No, the trees in the forest look different in Louisiana than they do in Virginia and Georgia." So he didn't want to shoot the film in the state where the—you know, so these days, I think the directors have a little less clout about that kind of creative issue.

A couple of quick questions, Pat. In New York, does the applicant have to be the copyright owner?

MS. KAUFMAN: No. We do not require that the applicant be the copyright owner. But on that same topic, and we don't require, by the way, that the project ever actually gets released.

MS. BODINE: Okay.

MS. KAUFMAN: But we do require that the project get finished.

MS. BODINE: Right, okay. And by finish, that means actually—

MR. DEICHL: Final cut.

MS. KAUFMAN: An answer print, final cut answer print.

MS. BODINE: Okay, okay.

MS. KAUFMAN: But it is also is important to us, although we are not concerned with who the copyright owner is, what we are very concerned about is who the applicant actually is. And by our regs, the applicant must be the entity that controls the production and signs the contracts with the stars and with the payroll service and with the studio or the soundstage and that sort of stuff.

And if the applicant is an LLC or an S Corp, which, as you know, are pass-through entities—at least the State of New York considers them pass-throughs—you should also understand that then that means that the credit will pass through to the members of the LLC or the members of the S Corp, the partnership, at a pro rata base. So if there are three members and one owns 25 percent and one owns 55 percent and one owns 20 percent, that's the percentage that each will get. Because I've had projects come in and say, "You know, we've just found an angel investor who's going to give us a nice little chunk of money and we just want to give him the whole credit and ignore the," you know, and just—everybody's agreed, let's just give it to the one investor. That's not allowed. It is always pro rata.

MS. BODINE: And that—I guess Marc can probably talk to this—that kind of backs into a lot of the way that as, you know, that you need to structure your financing, okay, because oftentimes when you're putting together the film, you have your producers and creative people and then you have your financiers, your individual financiers, and how they mix in the same company, what shares they have, whether they're members, who's got voting rights, who doesn't, who's managing. Those are questions that now not only are relevant with respect to the actual management and financial return, but also in terms of the way that you're going to structure your tax program for tax purposes.

The other question I had, Pat, was that when you use the credit for episodic television, is that accounted for by an episode-by-episode basis or the whole show, like a season, is accounted to as one project?

MS. KAUFMAN: It's by season.

MS. BODINE: Okay.

MS. KAUFMAN: So, for example—so it's shows that are based here for the season. *Entourage* called and said they wanted to do their last episode in New York. I'm a huge fan of *Entourage*, had to say no because it's based on the whole season, and if they only did one episode in New York, they weren't going to meet our 75 percent.

MS. BODINE: Everything else, right, okay.

MS. KAUFMAN: Yeah.

MS. BODINE: And is there a cap for the New York program per project?

MS. KAUFMAN: Per project? No.

MS. BODINE: Okay.

MR. DEICHL: Put a cap on the program?

MS. KAUFMAN: Well, yeah, they'll run through our money.

MS. BODINE: It was an allocation.

MS. KAUFMAN: Yeah, the allocation, it would run through.

MR. DEICHL: How much a year?

MS. KAUFMAN: Well, it goes up every year, so it went from \$65,000,000 to 75 to 90 to 90 to 100, you know, it goes up. But we're about to run through it, so—

MS. BODINE: Right. Great, okay. Speaking of how to put the financing together, we have a financier who's going to tell us how it's done. Steve, maybe you . . .



MR. HAYS: Very good. As it says in the bio, it's 120dB Films. We've been a film lender for five or so years. We're senior secured lenders to the space. Our loans, including tax credits, we do pre-sales, which are monetizing our contracts to distribute overseas primarily such that the producer

has access to that cash for production. We do last- and first-out secured loans as well. Over the course of the five years or so, we've monetized tax credits in about a half-a-dozen states and several different countries: Luxemburg, New Zealand, UK.

I think some of the things that counsel needs to consider seriously when representing either investors or producers is, certainly, when do they start to even contemplate how to plan for incorporation of the tax credit in the production. And the answer is—at least from our perspective—is obvious: You got to do it from the outset.

There's no reason why these tax credits shouldn't be embraced by producers acting and thinking as fiduciaries. Up until recently, it seems like a lot of producers were aspiring directors where they would embrace more their creative side than that of business. I mean they obviously are fiduciaries. It's other people's money that needs to be taken as seriously as any other business venture.

And, again, when you're thinking about using these credits, even at the certain stage of the script development, I mean you want to be thinking about where am I going to be shooting this thing? Where do I want to avail myself to these tax opportunities?

And what I saw—*Gran Torino* recently, I don't know if anyone—I'm sure people have seen this, it's obviously set in Michigan, and Clint happens to be a retired automotive worker. My guess is that script was probably modified. He could have been the tool-and-dye guy in Pennsylvania. But theoretically, you know, the tax credit is 42 percent in Michigan. My guess is they made it set there for a reason and it wasn't just creative.

One of the other things you want to be thinking about when you're helping people set up their production entity is the establishment of a tax year; and, certainly, when you identify where you're going to be shooting, it's going to influence, to some degree, what your fiscal year is going to look like so you can shorten the time as much as possible between production and when the credit or rebate is received.

All right, some of the other things we think about as financiers is kind of the mechanics of the financing. And someone comes to us and they've got a tax credit or rebate and they need that turned into cash, as I said, for purposes of the production. The question is how does the producer or how does the financier go about handicapping the funds coming back and assessing what is the appropriate rate of return?

We tried to have the rates that we charge reflect the risk and then obviously the timing of the receipt of the credit and rebate. And so the first thing we'll do is we'll take a look at the state and we'll see if it's an experienced program that's been around for a while and how predictable is it going to be, the qualified spend. And as Pat described, you know, there's certain elements varying from state to state. They're going to qualify for consideration under the rebate or credit program and other things that will be kicked out.

Obviously in New York, for example, above-the-line items aren't going to count. So you want that each—when you're contemplating where to produce, you obviously want to look at the nuances of each program, see what's going to qualify, what won't, how skilled and experienced they are, and determining what's going to qualify.

For example, in Michigan, we had the opportunity to cash flow the credit there, and because it was such a new program and still incredibly aggressive at 42 percent, including everything, including above the line, well, we declined just because it just hadn't had that sort of track record and processing these things in a timely manner, and it was something of a mystery of which spend was going to qualify.

And, certainly, with regard to any of these undertakings, when you're going to monetize, you're representing a financier who's contemplating monetizing one of these credits or rebates. You know the most important thing is that the money that they intend to spend does get spent. Obviously if they spend less, you're going to get some percent of a lower amount and, hopefully, you know, you haven't lent expecting the full spend will occur.

What we do on almost of our projects is require the presence of a completion bond or a guarantor, and they will guarantee that the film will be delivered. And almost by definition, these budgets are on the low side, so all the money will get spent. But having the presence of a completion bond is critical as well because it's just someone

looking over the shoulder of the producer making sure that they're on budget, making sure that they're spending money where they intend to spend.

And, in fact, in some countries, in New Zealand, for example, the completion guarantor will actually guarantee that the spend occurs, the qualified spend will occur. So to the extent that, you know, in other jurisdictions, some of the spend could leak out of, for example, New York, and into a neighboring state. The completion guarantor will actually assure that the qualified spend occurs in the jurisdiction.

The things that we look at seriously in considering handicapping a loan and deciding how to go about it and making sure we mitigate its risk as possible is drawn from this following list. Obviously the first thing you want to look at, is it a credit or a rebate, and Bruce spent a fair bit of time on that topic. Obviously, credit needs to be sold to a third party, and one of the big issues these days is counterparty risk.

I mean who would have thought that contracts or insurance by AIG would be at risk. Obviously, we all know a bit better today. So when we have a third party contracting to buy a credit, and, again, Bruce I believe does a pretty good job at vetting the ability of the third party to pay. Still, it's unknowable and it's one of the exposures that a financier has, the ability for the third party, the buyer of these credits to perform, and certainly adds some complexity. Obviously, it's cleaner to have a rebate check or a refundable credit come back on the form of cash directly from the state as opposed to having to go and collect it from a third party. So the credit or rebate topic is always something you want to contemplate in terms of deciding where you want to do your production and something you need to consider when handicapping a loan or an investment backed by one of these credits.

Pat certainly mentioned the assignability topic, and it's something we've been pushing her on for some time and it's not a surprise. I mean tax credits—checks have a tendency to land in the wrong hands even though they're secured by a lender or an investor promised those proceeds.

We had an instance in Pennsylvania where we had an assignment, and even in the presence of the assignment, the check went to the producer, was cashed. The producer was on holiday and the accountant decided they were going to pay down some bills with some of the proceeds, so now we've created something of a finishing fund gap loan when we thought we were fully secured by the tax credit.

So assignability, it's something you really want to get, and at the margin, you're going to go with a program that has more experience and a great track record, but still, if you can get a notice of assignment where you know that check is going to come to you, that's a good way of pro-

tecting your investors if they, again, if they've monetized or an investor lent against a receivable, which is all these credits really are.

One other issue with regard to these credits is when they're coming back and they're subject to offset, the issue is if the LLC—any of the LLC members—happens to owe tax in the given jurisdiction.

So, for example, in New York, if LLC members either have tax bills that are unpaid or they're subject to a dispute, the state has the right to offset or reduce pro rata the amount—the—it's not even pro rata, it's dollar for dollar, whatever it is that they owe is going to be reduced from the tax proceeds. So what we'll do as a lender is to get representation and warranties from all the LLC members and hope—generally, there's a relatively small list. It's not like you have hundreds of investors in these LLCs. But we'll get reps and warranties from them that they don't owe money, and they'll all have to sign a—essentially indemnification, although we do step up and pay the difference. Obviously, the ability to enforce that creates an incremental risk to the lender, but it's depending on the number and the nature of the investors who are sometimes willing to entertain that risk.

Timing of payments is obviously something that's critical if you're trying to handicap when it's going to come back. It's going to influence your interest reserve as a lender or what the discount factor is. If you're just a simple investor, New York State has, I think within 60 days or so of your—filing your returns, you should get your check back?

MS. KAUFMAN: Well, no. We get—we evaluate—oh, within filing the return?

MR. HAYS: Filing the return, within 60 or so days.

MS. KAUFMAN: Unless there's some question with regard to the entity's tax return. They never question our evaluation of what the credit should be, but if the applicant himself or herself has issues with the Tax Division, it could take longer than 60 days.

MR. HAYS: Right.

MS. KAUFMAN: But normally 60 days.

MR. HAYS: Yeah. The point is, each program has their own unique features. New York City, for example, will actually bifurcate the credit. It's a five percent credit, and at the end of—more coincident with the New York State, you'll get your first two and a half percent, but then you need to wait another year to get your other two and a half, so that will influence again the discount factor when you're representing your investors who are lending or investing against these credits receivables.

You know, as I was saying before, the business about going with the state that has experience, I can't overstate

it because you need an entity that's processed lots of these applications and they need to be predictable in terms of what they're going to allow as a qualified spend.

You know, certainly, the funds available under the program is critical in terms of capacity and you want to make sure that you're anticipating production in the state that's liquid, there's not caps, they've already been rubbed up against and they know—they're reliant on further legislation to be able to honor the credit program. You don't want to go down that path and then have to be set back finding that they're out of funds. You obviously want to do your due diligence in that regard.

And, certainly, the nature and the contractual security contained in the commitment letters or letters of eligible—of security—I'm sorry, you called it the conditional eligibility. It's always a struggle. So you want to examine that contract and make sure that you've got comfort that you're going to get those receivables and it's going to get on a reasonable timeline.

Other reasons to go venue shopping in terms of where you're going to do your production is to have states that, again, have a program that's been in place for a while because by definition, you're going to have counsel and accountants that are familiar with the program who are going to be able to do a good job to represent the producer and thereby ensure you're going to get your credit on a timely basis.

We talked—Pat probably won't like that I mention this, but there are ways of actually expediting even further the return of the credit or rebate, and that is if you happen to be on a fiscal year, or if you happen to be on a calendar year, but you've wrapped up the business of the enterprise, you can do so—you can shut it down early and then thereby file your taxes before the end of the calendar year. My instinct is you aren't thrilled when that happens, but it certainly—

MS. KAUFMAN: But it's not. I mean if the production is finished and if they—

MR. HAYS: That's right.

MS. KAUFMAN:—and they have cleverly, or somebody's already referred to, set their year so that it's timed right, it's okay.

MR. HAYS: So, again, the availability of that option, it varies from state to state. It's something to consider when you're venue shopping.

And, certainly, the definition of completed is something that's important and the ability to file subsequent expenditures that come after perhaps you contemplate the—or you consider the film completed. I know—I believe in New York, you can only file once with regard to your qualified spend. In other states, for example, in New

Mexico, you can file your—for your credit, and to the extent that you stumble across invoices that were stuffed in a drawer, then you can send it in and you could get your additional proceeds.

I guess in terms of what, you know, producers and financiers need to know about the plans to benefit best, it's really the sorts of things that we've just discussed. A prudent lender needs to know everything they possibly can. I come from the world of arbitrage and distress securities, and, obviously, there's no end to the amount of information you're going to want in terms of handicapping risk of any of these potential investments.

These programs are incredibly technical and you really need a full command of the nuances of each of these things. And you shouldn't assume the producers know the rules. We spent a lot of time haranguing producers to make sure that they're being able to check all the boxes and get these applications in on time, that they're satisfying some of the things that Pat described; for example, shooting on a qualified soundstage. And these things are critical, and you just don't want to rely on these producers to satisfy checking all the boxes.

And in many instances, the receipt of these rebates and credits are binary. I mean if you miss one of these boxes and you don't qualify, it's a zero. And in many instances, especially in some of the larger productions where you have third-party lenders or investors that have been the recipient of pledges or parts of the collateral, which is the rights of the film, either pre-sale contracts or there's a gap loan that's secured by the unsold values of the territory, you may really be only secured by the tax credit, and so there's no other form of recourse unless the film really breaks out and does well.

So you don't want to be in a situation where you're reliant upon producers to make sure the thing qualifies and that things go as planned. And that's about it.

MS. BODINE: So, Steve, let me ask you a couple of things about you just to get an idea of your company's involvement with this. Would you—do lending against these credits as your sole way of financing a film? Or is it always in conjunction with some other kind of production financing that you are doing?

MR. HAYS: It all varies, it depends on the producers' needs. Generally they come to us and they will have half their equity or so in place, or they'll have half the budget in place in the form of equity and they'll be looking for a gap loan, which again is a loan secured by the estimated values, the remaining unsold rights. We would require that a couple of pre-sales would be in place. And as I described that's where the producer sells the right to distribute in specific territories. And we would use those sale prices to extrapolate what the remaining values of the film might likely be in the unsold territories.

So we'll monetize the pre-sale contracts, we'll discount the tax credit receivable and sometimes we'll do a gap loan. So it tends to be a package.

MS. BODINE: And are your—all of your financing are structured as loans, or do you—

MR. HAYS: That's correct. We are senior secured lenders, we don't do mezzanine, we don't do equity, and especially these days, equity is a four-letter word. But we are only the top of the capital structure, top of the waterfall.

MS. BODINE: Right okay. This might be a Bruce question, too. I'm just curious whether given, especially the climate today, when you are working with a trade of a tax credit, is there a negotiation possible between the corporation that's buying it and the financier regarding the sharing of risk during the interim?

MR. DEICHL: The buyer will take no risk.

MS. BODINE: The buyer will take no risk.

MR. DEICHL: No risk. That's non-negotiable. But that's part of our job is to mitigate, let them know. You mentioned, for instance, Georgia. There's a ton—I had three calls last week from studios that are planning on spending between \$80 and \$100 million each in Georgia. Georgia was not even on the map until about four months ago and they changed their legislation. And they were asking, "What's the pros and cons?" And I said, "Well, the pros are, it's a good program; cons are you can't sell them. Or if you can sell them, it's going to be discounted heavily because there's recapture." And indemnification from a studio today is not what it was nine months ago.

MS. BODINE: Right.

MR. DEICHL: You know, and so a large buyer, whereas before—and you know the six studios, and they said, yeah, I'll take their indemnification. No mas.

MS. BODINE: How about the other way around though? I mean, isn't there some risk involved also in whether the company will actually be around and solvent to actually purchase the credit at the right time?

MR. DEICHL: There is. For instance, Paramount is doing *Up in the Air*, that Jason Reitman movie in Missouri. Now that credit won't be ready until probably December or maybe a 2010 credit. And I approached my buyer and said, "Listen, you want to lock the studio up, you want to have it so that you can do your forecast. And the same thing with the studio, you want to lock it up now."

So in that case, because it was probably only 12 months out, they were willing to do it. But we had a film that was asking us—it was a \$40 million spend in Pennsylvania, and it definitely wasn't going to be until 2010 and they wanted it locked up now. And the buyer said,

"Pound salt. Tell me what's going to happen next year." They weren't willing to make that commitment.

And the problem with Pennsylvania, there's no carry forward to the buyer. That was probably the most stupid legislation in the country for a tradable. You can't—it's very difficult. If you're a buyer and you're basing on projections, and you are buying in August based on your projections. And if you make a mistake or your projections don't come in correctly, you have nowhere to go. There's no—zero carry forward.

Now the producer has a three year, what sense is that. So we're going back to the legislature and saying, "Look, can we just match revenue neutral? Or give us one year, just in case you made a mistake."

Secondly, in Pennsylvania, you can only—a buyer can only shelter 50 percent of his liability, it's called a 50 percent limitation factor. Every other credit in Pennsylvania is 75 percent.

So I've got one whale that pays \$13 mil; that's a pretty significant taxpayer for a state. So you got to cut that in half, so 13 becomes \$6.5. And because there's no carry forward, they'll buy \$3.5 mil. Well in order to handle \$75 million in that program, I need \$300 million in buying power and there's not that much there.

So these are the little intricacies that come in. So again, to try and line up that client now, if he's a \$13 mil taxpayer but he only can shelter half, so he's down to \$3.5, how much commitment would you make today for something a year from now, in this economic environment.

MS. BODINE: So is that what affects you Steve, in terms of making a choice about being—doing something—

MR. HAYS: We are certainly highly attuned to counterparty risk as you can imagine. So we won't—and Bruce says, "Hey, I've got a Connecticut credit, I've agreed to sell it for whatever—X cents on the dollar and so and so. If it's a public company, we're going to pull out their 10K and we're going to make sure they are going to be able to perform. To the extent they're private, we are going to look for financials and sign an NDA. We are not going to take on face value their obligation and their contract to perform.

MR. DEICHL: And fortunately, the deals that we've done with Steve, we've been able to go to a purchase agreement before he even lent out the money. And these are—once these guys make a commitment, no matter what happens, they are not going to renege unless they're out of business. We're not talking Fred's Cleaners here, but that's if you get them to a purchase agreement—

MR. HAYS: No, we would never lend unless there's a contract in place.

MS. BODINE: And so there's a contract—just so everybody understands the way this works—the contract will be between the financier and the buyer of the credit directly?

MR. DEICHL: How did we do that, Steve?

MR. HAYS: I think you acquired the credit from them and then you flipped it to us.

MR. DEICHL: Yeah.

MR. HAYS: That's how you made your spread.

MR. DEICHL: We had a letter of authorization to pay Steve directly upon closing. But our contract is between our buyer and the producer, which is iron—well, as ironclad as—

MS. BODINE: They can be these days.

MR. DEICHL: Keep you guys away from it. It's ironclad.

MS. BODINE: But a room full of lawyers and they'll find a loophole somewhere. The other question I had is that the New York aspect of being prorated benefit to the members of the entity—Is that something that is common amongst other states, or is that also something that varies a lot from state to state? Or is that it?

MR. DEICHL: That's a New York—

MS. BODINE: That's a New York thing?

MS. KAUFMAN: Like I said, our program is very distinct—

MS. BODINE: Yeah okay, well, you have that—because of the amount of production and the wonderful asset you have—

MS. KAUFMAN: Yes.

MS. BODINE: You can afford to be.

MR. DEICHL: New York State Tax Law. And where it really puts the wrinkle on our guys like Steve, the producer wants to cash flow that. And unless they do—there are ways around it as you know. Literally, if there are any taxpayers in the LLC, Steve would have to analyze every freaking shareholder as to what's the net credit going to be—makes no sense. But there is a structure that can protect Steve so that he knows what the entity is going to come up with.

MS. KAUFMAN: And if it's a C Corp., although I know there are other problems with C Corps., but at least then there's no pass-through issue. And by the way, New York City also does not consider the LLC and the S Corp. as pass-through; it's only New York State. So the 5 percent from the City isn't subject to this pass-through thing. But the third percent, which is the part that counts, is subject to the pass-through.

MR. DEICHL: But again, it just shows that every single state is different and you can't relax, you have to look—even to a small niche like this, go figure, who would think that New York's law is such that now you have to analyze all your shareholders.

MS. BODINE: It's a full employment—

MR. DEICHL: It is.

MS. BODINE: Full employment for lawyers and tax consultants, is what it is.

MS. KAUFMAN: Well, unless you accept the idea that it's simply going to go to the shareholders—

MS. BODINE: Right.

MS. KAUFMAN: And many productions do go into it on the assumption that it is just going to go to the shareholders. And the production is not trying to pre-monetize, they're simply trying to make it attractive to investors.

MR. DEICHL: And by the way, most—some states don't even know. I was on a panel out in California, \$500 people—every studio was there, every major Indie, and this guy in the audience stands up and said, "I understand that New Jersey credit must accrue to the pass-through." I'm going, "What?" Because we had just closed on four or five trades. And the entity can choose. And this guy was emphatic that economic development who oversees the program for New Jersey, some idiot there was telling everybody wrong information.

So I get back and I'm saying—nothing like—here I am trying to sell states, that's what I do for a living, is help producers where to film, whether it's New York, New Jersey, Pennsylvania. And now you've got the state giving erroneous information. So I had to go to—Lee Evans head of audit. "Lee, have you guys changed the rules here?" He says, "No." I said, "Would you please educate your own economic development so at least he gives out accurate information?"

And there's been a terrible tiff in Michigan between the Film Office and the Department of Revenue. There's—I've been on panels where there are arguments—vehement arguments because the Film Office gives one answer, and DOR gives another. So if you are involved, always get everything in writing from DOR. No offense, Pat. And by the way, Pat knows more than any—

MS. KAUFMAN: But that's not true in New York.

MR. HAYS: No.

MS. KAUFMAN: In New York my office completely controls the program and has final say on what is or is not qualified. And the Department of Taxation and Finance has signed off on the fact that we make those determinations, so—

MR. HAYS: But the majority of other states, it doesn't work that way, so you've got to be careful.

MS. BODINE: Well, Ms. Producer, what are you going to do.

MS. KOFFLER: Pam Koffler of Killer Films. Been making independent films in New York for about 15 years. The whole rebate situation has completely transformed what I do. And what I do is sort of the bottom of the food chain on this panel. And I am a creative producer.



So I get a project in various forms, whether it's a book or story or a full written script. And I have to figure out, how do I make it, how do I get the money, and how do I make it good, because if it's not good, it doesn't do the investors any good at all.

And one vector in that analysis of how to make the best movie for the most prudent price tag has become where to shoot it. And Sue was joking, like the leaves in Georgia don't look like the leaves in North Carolina. And everyone laughs, ha, ha, ha, ha, go where the rebate is. But there is this issue of the movie needs to be true to itself. And it needs to be excellent in this market especially. Just an okay film isn't going to do well anymore.

So it's been a really interesting process to absorb all of the options, which I'd say are largely fantastic, because there was this chapter in making especially independent films, which is my purview, where going to Canada was just this reflex. Like oh, go to Canada, this corner can look like New York, and that corner can look like Hawaii. And suddenly, all these movies were being made that shouldn't have been made in Toronto, and I think some of them really suffered.

And now there are so many options in the United States to get soft money, which really, really helps in these economic times, because it's actually, for what I do, sort of a foregone conclusion. If you're independently financing a movie and piecing it together with equity, foreign sales, a bank loan, soft money, it's just assumed. You just have to have some piece that is based on one of these programs.

How we decide where to go is much less scientific than what I'm gathering kind of happens a little further behind the scenes from these guys, and it's a little bit more organic because while I'm sure director, actor, creative needs, have fallen on the list of bullet points of what determines how a movie gets made, they're still a factor.

And the New York program has been a complete revelation for what we do, because we were struggling for years to replicate New York City in other places. And I just did a move that Steve was involved with that was called *Motherhood*, that was at Sundance, which is a day in the life of a New York City mom in the West Village. And we flirted with Connecticut for the apartment, because we were there for three weeks inside an apartment. And we looked at New Jersey. And once you really did the calculus, it just didn't pay to leave New York City, which is fantastic, and it actually really made the film better. We would have strained against, all right, so we're pretending to be here, and then we're going to go to this state and pretend to be here, and pretend it all connects together seamlessly. And as the producer, it's really the job to make the movie the best it can be.

And one must be absolutely mindful of the fiduciary responsibility that it shouldn't cost more than the market can bear. And you need to maximize your soft money, but you can't—you need to be careful about being twisted in a pretzel that doesn't serve the telling of the story.

A creative producer like myself who develops the project, does the casting, finds the financing—I'm probably the least informed about the nuances of every program. So someone like me should be told, get good advice about what these programs are like. Because I hear, oh, Michigan is really aggressive, and Puerto Rico is really cool, and oh, there's a good one in Iowa. And you call line producers, you call other producers, but the real technicalities about who gets this money and how is it monetized, and what happens when I'm done—I've delivered the movie, I didn't pay for it, I've gotten my fee, and now I just have to care for the health of this movie getting out in the marketplace.

I'm not the one who's going to absolutely make sure that the investors get that rebate back in their pockets. I've facilitated and I'm accountable to the movie being delivered properly so that everything can be followed through on, but it's really important to have people like all of these folks on the panel involved in the process. Because my heavy lifting is physically making the film, which is so intensively consuming, I'm relying on a lot of people to make sure that the program is being deployed properly and effectively so that the investors see that money.

All the accountants and line producers are getting better and better at really understanding them and they're a really important part of the puzzle.

As Bruce said, studios have massive teams of people who are analyzing these programs and understand them. For a smaller producer like me, and our budgets range from anywhere \$2 million to \$20 million, it's still sort of an organic process where it's somewhat intuition; it's somewhat what does this script need, what state can

provide that. Then let's start figuring out what that state can give us.

I didn't know Bruce did his job until today. And I'm not going to do a movie without calling him next time, because I think there are certain projects that are sort of fungible in that way, like you know, it's just a prep school, and it's just a woods, and it's just an ocean, we could be in a lot of different places. Let's—

MS. BODINE: But fish look different in Massachusetts.

MS. KOFFLER: That's when you tell the director, just go get a cup of coffee, we'll figure that part out. But sometimes it's vital that you are in a place and there still may be opportunities there that you can take advantage of. So that's my take on all of this. I mean, I come at it really truly from a creative perspective. And the last five, six years have completely rewritten the rules about how to make these independent films in the United States in a really great way.

MS. BODINE: That's interesting, because you know, for independent producers, I represent a lot of independent producers and directors and writers and financiers, and there's always been this tension between the financing and the creative, obviously, in terms of how much impact the financing wants to have on the creative. And that would always take the form of approvals of well, what do the financing guys want to be able to approve. And everything—you'd have every kind of deal from—like a studio deal where they basically approve everything, and you are lucky if you get to just chime in to really sort of final cut director type of Indie filming where the financier is basically a silent partner and maybe gets to approve the principle cast and the screenplay, and maybe that's about it. And now, so that of course still exists as part of the financing for independent films. But now there's this other whole aspect of the interchange between the creative and the financing on this side of things where obviously the states are not coming in and saying, okay we want to approve your cast and your locations and your key crew. But obviously by the incentive being so strong in certain places, they're going to have, probably, I guess, on the look of the film, it's going to really be the most important aspect of things that's going to be impacted.

MS. KOFFLER: And also just the nuances of what the pragmatic application of being in a place is. The Connecticut rebate has been really—we've been hearing about it for a long time, how fantastic it is, but what I had to be mindful of in making a decision is, once I get there, who's there, will the hotels be filled up, will the crew be there, am I going to just be schlepping everyone from New York on my little \$6 million movie eating up most of what the savings is in the rebate, and would I have been better off just staying in New York.

So there's sort of a calculus that I've never done number by number, but it's kind of a gut feeling about how busy is that place versus how busy is this place. So all of that factors into the decision as well.

MS. KAUFMAN: And can I just add in, in New York at least, we take great pride in the fact that we hold the producers hand all the way through the process to make sure that they understand. And in fact, we require that either a producer or a line producer comes to the initial meeting so we can make sure that the creative producer understands that a decision to just jump across the river for a day might have an impact. So be careful, don't do that. Or if you do it, make sure it still fits within the—and so I think that's one of the things that we offer that sometimes you don't necessarily get in other places.

MS. BODINE: Right. Well, that's, I guess, what Steve was saying in terms of being willing to work with a program that hasn't got a lot of experience and may not have that kind of sophistication to really be able to advise people. Or you don't know the really basic stuff of like what's going to happen at the end of the day. Are they going to finally write the check, or is there going to be some kind of loophole or problem that nobody was expecting.

MS. KOFFLER: More and more I feel like the way these movies are being financed, what comes back from an incentive program is not kind of gravy. It's a part of the business plan. It's part of what makes this project make sense in the marketplace. So it's pretty—you've got to know that it's going to be there and it's going to work.

MR. DEICHL: In some cases—we've just had an incredible situation. One of the major studios shot a movie in Pennsylvania, and when they committed to go there, Pennsylvania had a \$10 million grant program at the time. And Rendel tried to get the studio to come in and do a major—it was an M. Night Shyamalan movie, and he wanted that done in Philadelphia. And it was a \$60 million spend. So there were no rules, there were no regs at that time. So on a handshake they went ahead, they did their spend. Most of the spend was in '07. Now regs start coming out, and this is where I'm actually tailgating on Steve, that having a state like New York that already has been out there and has the rules, all of a sudden we're trying to monetize this credit.

Well, the state took—there had to be an audit done. And once the audit was done you had to file your applicable tax return. Now I know you guys would never put something like that in a contract without defining it. Well, the state did applicable. We took the position that the ap-

plicable year was the year that the money was spent. State took the position, no, it's when you file your audit.

Now, I'll give you a little example. We are talking \$10 million credit. This particular studio had a June 30th fiscal year. So now the audit got submitted September of '08. According to the state the applicable year is that year, which means that the studio couldn't even file their tax return until their June 30th '09, which means that they wouldn't have filed it until April of 2010. And by the time that they were able to monetize, the credit would probably be September of '10. Two years extra on \$12 mil. Two million bucks out of their pocket.

So we started nine months ago fighting with each of the three film commissions. We went to DOR, we went to the Department of Economic Development, and

everybody said, "Well, they should have known." And it wasn't a situation—they filed—they actually did something stupid, which they'll never do again. They filmed it under their core corporation so they couldn't collapse it like Steve mentioned. Had they done that, it would have been a non-issue. They could have immediately collapsed it and filed. But it was under the major corporation, so they had to wait until their parent company was prepared to file their taxes. It was going to cost them \$2 million. We fought that for nine months, we couldn't get anywhere.

Finally, in the accounting firm that we work very closely with, we're getting a lot of accounting standards called, agreed-upon procedures, passed throughout the country. We had them interpret it; they came up with the same interpretation we had. They wrote a letter ruling request. I'm not an attorney or an accountant, a three-pager saying that you're wrong, you're wrong, you're wrong. This is the way we're seeing it. And the state acquiesced, which we were able to close on, which saved the studio \$2 million.

MR. JACOBSON: What all this talks about really, and for one representing producers and lawyers, is really the timing of the cash flow, and it's really critical. I mean you need, I don't know, \$6 million to make a movie. You need the \$6 million in place, because if your lender is 120dB Films, they require a bond. The bond company isn't going to guarantee delivery of the film to 120dB Films unless the money is there. So you've got to know that the money is all there.

Well, he's discounting it that much and the other guys are going to take this much and there's a haircut there. All of a sudden your \$6 million budget you only have—let me pick a number, \$5 million in cash available when you



start pre-production or when you start principal photography. Then you're in a position of having to go back to the people that you are employing on the film and say, "Listen, I need you to defer some of your money, you got to pay it later." And you are constantly negotiating to try to get the picture made on the budget, with the bond company and the lender and the tax credit guy and the fluctuation in the dollar versus the pound. I mean, it's a constantly moving target. And it's difficult.

MR. HAYS: Just for clarity, we would never close on a loan until all the money is in place to hit the strike price, which means that the bond is effective and they guarantee delivery. But the point remains valid.

MS. BODINE: Well, that's why sometimes, the actual—well, not to get too far afield into the film financing, but it's not so unusual to find that there's another whole layer of bridge financing that comes into play while all this is happening. And you're not actually closing your real financing until sometimes literally after principal photography. That's hopefully not too usual, but it certainly has happened. Because as Marc said, this is a many many spoked wheel that's constantly turning around while you are trying to actually roll your cameras at the same time.

We don't have too much time left, but enough to take a couple of questions. So anybody that—I'll just start on one side and move over.

AUDIENCE SPEAKER: I think that for Marc and/or Steven—I'm wondering since it's like financing receivables, if it goes through the groups of the UCC filings and things like that.

MR. HAYS: When we are a senior lending on a film we always file security interest. And so UCC wants us to just keep a component of that. We also will take a mortgage of copyright. Now, if we're only secured by the underlying tax credit, it generally tends that there will be third party lender, and they'll have a first position, UCC-1. But it is very much a receivable, and so you're discounting—you are factoring that receivable for a cost of money. In addition, we'll take a cushion, we'll take a small haircut to the expected amount of that credit just to make sure that some of the qualified spend is disqualified or doesn't occur, then we won't be impaired to the extent that the entire amount of credit comes back, and the producer be reimbursed.

MR. DEICHL: If it's a tradable and Steve is lending, we will come in, we will place it, we will have a purchase order between buyer and the producer with an LOA up front authorizing the wire from the buyer directly to Steve in the purchase agreement. So we don't take a UCC or anything, it's a black-and-white purchase agreement with a letter of authorization of where the money goes, and first is to the lender. And then if there happens to be anything left over, then it would go to the producer.

MR. JACOBSON: Most lenders will take both the UCC filing and the copyright mortgage, and there's good case law that distinguishes why you need a copyright mortgage and why you need a UCC-1, because they relate to different aspects of the film.

MS. BODINE: Anybody else? Yeah.

AUDIENCE SPEAKER: Do banks ever lend on investment tax credits?

MR. DEICHL: For the last four years everyone's talked about it. And four years ago, anyone that lent against it still was charging gap rates for the most part. And your major players in that market are Comerica, Bank Leumi. They didn't want to touch the credit, because first off, they didn't have the capacity to monetize it. So they really pretty much stayed out of that game. And guys like Steve and Groverner (phonetic) Park, and a few others got into that market and are actually giving it some collateral value. But this market changes every day. I mean, a lot of people are no longer in that market just within the last two months. There was one organization that had a half a bil from Citibank; gonzo, gonzo.

We're seeing new players. We're seeing a couple of new players come in, but we're seeing a lot of them going out the door. Some of the majors that have been around for years, we're hearing that they've closed, or at least they're on hold for a few months reevaluating the current market.

MS. KAUFMAN: But even New York which is not assignable and not tradable, there have been bites, Comerica being one of them, who have lent against the credit and monetized the credit. And you have, right? You've lent against and monetized the credit. So it certainly in the past it's been done and hopefully will continue to be done.

One of the things that we worry about is that since ours is not easily tradable, that when you do go to others for advice, since they can't make money off of it if you come to us, we worry that the word won't be out. So we always hope that no matter what, you will call us and talk to us and hear our pitch on how it works because it's less easy for a third party to make money on the process if you choose to come to us. It can be done, but it's less easy. And if the third parties are the ones that are out sort of encouraging and giving the advice about where you should take your project, you might not hear as much about us from some third parties as from others.

MR. DEICHL: And there are new products that have come up. And like when I talk with Steve, and I talk to any lender that we're working with that are going to cash flow it, game's changing. For instance, we strongly suggest—I wouldn't touch a deal unless a professional vetted the actual budget to see what the real credit is going to be. Because in a lot of states, not New York, but a

lot of states you can only file once. So everyone is padding their budgets.

We had one in New Jersey recently we closed on. The preapproval was \$2.1 mil. That leader didn't take the time or the energy to have that budget vetted. The actual credit was \$1.3 million and change. They lost \$300,000 on that trade before they even got started.

MS. KAUFMAN: And if I can just add to that point, we are somewhat unique in that we accept you into the program based on your initial application where you give us your projections and what you think the budget will be. But the real money, what you actually get is based on the actual budget at the end. And we did that specifically so that people wouldn't come in and pad ahead of time. It's much better for us if we get a realistic idea of what the project is going to be. But if the actual spend on the project ends up being greater than the projected budget that came in with the initial, we don't hold you to the initial. We will literally give it to you based on what you actually spent.

MS. BODINE: I was also going to say in terms of the banks, over the years I've found that banks come in and out of the whole single-film financing business with some regularity based on certainly economic cycles, and also personnel. Because I think one of the things that we're finding here—hearing is that really the trust factor is all about the people who are actually doing this work, and that they know what they are doing.

So when you have producers who are really experienced or where you have bankers who really know about these kinds of programs, or about foreign sales markets, then that's where you're going to find some interesting willingness to do that.

As banks kind of come in and out of it, they kind of for a while where there was a lot of gap, and now it's like good luck finding the bank that's going to do that. And it'll probably come back. But for all these reasons—even though it may make economic sense to go to any bank and try to convince them to do it, and it's not like it's more risky for one bank than it is for another, it's just that

if they don't have the department and the people who really have that expertise, they're just not going to look at it.

Is that it, or—we have one more.

AUDIENCE SPEAKER: Obviously, you have a certain amount of money that you set aside for a given fiscal year or each person in an advised program. Is there a limit to the amount of times that you can take advantage of the program? Like is it two times, or just once during a given fiscal year?

MR. JACOBSON: Is that to Pat?

MS. BODINE: I think to Pat probably, yeah.

MR. DEICHL: It depends on the state. Like for instance, New Jersey: Once you apply, you have 150 days to start your filming. Some states are 90. Does that answer your question? I only heard part of it.

MS. KAUFMAN: Or was your question can you come back with other projects?

AUDIENCE SPEAKER: Yes.

MS. KAUFMAN: We have no limit on how many projects an entity can come in with. We've got some frequent flyers that we love and adore. So each project gets treated individually; but we don't say to a particular company, "Oops, you've just given us too much work, that's the end for you." We welcome them, if that's what you're asking.

MS. BODINE: Okay folks. Well thank you very much.

Endnotes

1. See p. 92.
2. See p. 78.
3. *Mazer v. Stein*, 347 U.S. 201 (1954).
4. *Barry Kieselstein-Cord v. Accessories By Pearl, Inc.*, 632 F.2d 989 (2d Cir. 1980).
5. *Basha v. Vollman*, 88 F. Supp. 2d 226.
6. *Prestonettes v. Coty*, 264 U.S. 359 (1924).
7. *Gilliam v. American Broadcasting Cos.*, 538 F.2d 14 (2d Cir. 1976).

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Fair Use and YouTube: Adapting Copyright Enforcement to the Burgeoning Volume of Transformative User-Generated Content

By Bryan Georgiady

One of the most dynamic areas of Internet entertainment and expression is “user-generated content” (UGC): short videos wholly created by amateurs, then uploaded to dedicated Web sites that allow the videos to be viewed by anyone in the world with a computer and an Internet connection. Today, the volume of UGC being produced is expanding at a rapid pace. Internet sites that host UGC—the largest of which is YouTube.com (YouTube)—are among the busiest sites in the world. Millions of Internet users, from all segments of society, actively seek UGC for informational or entertainment value.

Much individually produced UGC “mashes” amateur content with audio or video clips copied from existing works. Copyright issues abound. The Digital Millennium Copyright Act (DMCA) is the controlling law for many of these issues, and allows copyright holders of existing works to demand the removal of infringing UGC.¹ The creators of UGC, however, may, in their defenses, invoke the Copyright Act’s fair use provision.² One of the primary legal issues surrounding UGC is how to balance the DMCA’s copyright enforcement mechanisms against fair use. Given the explosion of UGC content, can the fact-specific, time-consuming fair use analysis continue to effectively weed out infringing UGC from the legal kind?

This article will discuss the UGC phenomenon, and describe the speed with which it is becoming a significant form of entertainment and medium of speech. Focusing primarily on video UGC that digitally mixes original content with segments of existing works, this article will place UGC in the context of the DMCA and discuss how the rigid enforcement protocols that Internet service providers (ISPs) use to qualify for immunity from copyright liability affects the fair use analysis of allegedly infringing UGC on their sites. Finally, it will compare two sets of principles, one representing industry and one representing freedom-of-speech groups, and discuss how the challenges of UGC copyright enforcement will strain the current doctrine of fair use.

The UGC Phenomenon

The rise of UGC is the latest innovative phenomenon attributable to the Internet. User-friendly software programs allow anyone to remix content and produce original digital videos or other works of expression.³ UGC can take a variety of forms, including video diaries, original short films, original music videos, and “occasionally inexplicable hits such as dancing birds and bad lip synch-

ers.”⁴ Internet sites motivate creation of UGC by allowing individual creators to present their videos to the world, for free, with only a few clicks.⁵ YouTube receives more than 100 million hits each day.⁶ The site also receives an average of 65,000 new video uploads each day.⁷

Generally, UGC videos uploaded to sites like YouTube take one of three forms.⁸ Pure UGC consists of entirely user-generated images, videos, or music and presents no copyright issues. Much UGC, however, blends (through digital “mashing”) original content with content copied from existing works—typically popular songs, television programs, advertisements, or movies. Finally, some UGC represents classic piracy. These files contain no original UGC, but are merely digital “rip-offs” of copyrighted works (i.e., usually verbatim copies of movies or television programs digitized and uploaded by individuals).⁹

A broad spectrum of people is taking part in the UGC phenomenon. In a recent survey of Internet users from ages 30 to 75, almost half reported creating some sort of UGC content and displaying it to others online, while nearly 70 percent reported viewing UGC uploaded by others.¹⁰ As of October 2006, YouTube logged 34 million viewers per month and became one of the 15 most-visited Internet sites in the world.¹¹ Ultimately, “hundreds of millions of us are flocking to the Internet as an alternative media source . . . because we’re lured by a medium that allows people like us to become part of the conversation.”¹² It has been estimated that within five years, as much as 25 percent of the entertainment the average person consumes will be UGC, rather than works produced by “traditional media groups.”¹³

Clearly, UGC is emerging as a constitutionally-cognizable medium of personal expression. Indeed, First Amendment interests are served when consumers shift from being “passive viewers of material” to “more active participants in the creation of expressive works.”¹⁴ More than 10 years ago, in *Reno v. ACLU*, the U.S. Supreme Court applied full First Amendment protection to the Internet as a medium of speech and wrote that the wide variety of media available on the Internet—now to include UGC—represents a “dynamic, multifaceted category of communication.”¹⁵ Furthermore, although the more banal or inane videos uploaded to sites like YouTube are anything but cinematic achievements or thought-provoking commentary, “the Constitution leaves matters of taste and style . . . to the individual.”¹⁶ Most mashed UGC videos, therefore, are entitled to counterbalance the restrictive

pressures of copyright enforcement against the First Amendment's promotion of free speech.

The DMCA and Its Consequences to UGC

Overview of the Notice and Takedown Process

The DMCA, passed by Congress in 1998 and codified in part at Section 512 of the Copyright Act, limits liability under copyright law for certain qualifying ISPs. As long as an ISP meets the DMCA's statutory definition of an online service provider and performs certain activities to maintain its eligibility, it is entitled to safe harbor from copyright liability based on infringing content placed on its Web servers by individual users.¹⁷

For an ISP service that hosts user content, such as YouTube, safe harbor from copyright liability exists so long as (1) the service has no actual knowledge that material stored on its servers is infringing,¹⁸ (2) the service is not aware of facts or circumstances that would make infringing activity apparent,¹⁹ and (3) does not receive direct financial benefit from any infringing activity occurring through its servers that it has the right and ability to control.²⁰ ISPs must also create terms-of-use policies addressing repeat infringement and post them to all users.²¹ They must also refrain from interfering with "standard technical measures" employed by copyright owners to identify their protected works.²² Finally, an additional safe harbor requirement under Section 512(c)(1)(C)—the one most important to this article's topic—is that an ISP must, "upon notification of claimed infringement . . . respond[] expeditiously to remove, or disable access to, the material that is claimed to be infringing or to be the subject of the infringing activity."²³ Known as the "notice and takedown" requirement, this is the legal mechanism through which copyright owners may enforce their rights and demand that an ISP block access to infringing content available on its site.

To trigger the notice and takedown process, a copyright owner must send an official notification of claimed infringement to the ISP.²⁴ Among other requirements, proper notice must identify the complainant, specifically describe the material that is claimed to be infringing, and identify its address on the ISP's web site in a way that permits the ISP to precisely locate and remove it.²⁵ Additionally, under Section 512(c)(3)(A)(v) a proper notice must contain "[a] statement that the complaining party has a good faith belief that use of the material in the manner complained of is not authorized by the copyright owner, its agent, or the law."²⁶ After receiving a notification of claimed infringement, a typical ISP will act immediately to block access to the specified content.²⁷

The content's user has one opportunity for recourse. Pursuant to Section 512(g)(2) and(3), the creator may send a counter notice to the ISP containing, among other specific information, "[a] statement under penalty of perjury

that the subscriber has a good faith belief that the material was removed or disabled as a result of mistake or misidentification"²⁸ The counter notice obligates the ISP to replace the blocked content "not less than 10, nor more than 14, business days following receipt" unless the original complainant files an action in court to order the removal of the allegedly infringing file.²⁹

Finally, the DMCA establishes liability for a copyright owner's misuse of the notice process. Under Section 512(f), "[a]ny person who knowingly materially misrepresents . . . (1) that material or activity is infringing . . . shall be liable for any damages . . . as the result of the service provider relying upon such misrepresentation in removing or disabling access to the material"³⁰

The media industry extensively utilizes Section 512's notice and takedown procedures to attempt to control infringing content on UGC hosts like YouTube. Although takedown notices are difficult to track because they are not public records, it is believed that the larger ISPs each receive tens of thousands of notices per year.³¹ As an example, in 2007 NBC Universal reported sending more than 1,000 takedown notices per month to YouTube.³² It also admitted to having three employees responsible for constantly scanning YouTube for infringing content.³³ A similar UGC host site, Veoh.com, claimed in 2007 that of the "hundreds of thousands" of videos uploaded to its servers nearly 7 percent had been the subject of takedown notices.³⁴ In 2007, Viacom served YouTube with the largest bulk infringement notification to date, requesting that it block access to more than 100,000 different files allegedly containing infringing content.³⁵

Inherent Weaknesses in the Notice and Takedown Process

On its face, the notice and takedown procedure appears to grant copyright owners the ability to control infringement without robbing the creators of the blocked files of their ability to successfully protest. As applied, however, the system is far from perfect.

A 2006 review of actual infringement notifications received by ISPs indicates "an unfortunately high incidence of questionable uses of the process" by notification senders.³⁶ The study found that a number of the notices appeared to be invalid, either for failure to meet statutory requirements for specificity, or, worse, for failure to address a copyright-related concern at all.³⁷ Yet these questionable notices were nevertheless generally acted upon by cautious ISPs, for two reasons. First, many ISPs were unwilling to risk the liability that would attach for failure to "expeditiously" remove the allegedly infringing content—if a court later ruled the notice to be valid.³⁸ Second, ISPs were directly protected by Section 512(g)(1) against liability for acting on a notice blocking access to content, even if a court later ruled the content itself to have been lawful.³⁹

ISPs, therefore, substantially increase their own risk and potentially lose safe harbor protection if they ever question takedown notices.⁴⁰ This is especially true when copyright owners cast a wide net—as Viacom did for its 100,000-file YouTube notice—as errors occur. Numerous YouTube users reported having access to their files blocked as a result of Viacom’s improper identification.⁴¹

Striking a Balance Between Efficiency and Fair Use

It is apparent that Section 512 initially puts copyright owners in a stronger position than the ISPs or UGC creators. Some critics believe that the *post-facto* counter notice provisions are too little, too late to protect free speech. However, the actual degree of threat to free speech may depend on the type of UGC at issue. Section 512’s takedown provisions were originally intended to combat the most egregiously infringing types of UGC: whole copies of movies or television shows that individuals digitally copy and unlawfully distribute online. Creators of those files, of course, can hardly defend their conduct under fair use or any other defense. Section 512’s quick and easy enforcement methods are an appropriate match to the quickness and ease with which individuals can upload pirated files to the Internet.

Today, however, the volume of mashed-up UGC, which mixes an amateur creator’s own content with other copied audio or video material, is exploding. A recent study of the most popular infringing files on YouTube reported that only a minority were “‘blatantly pirated’” copies of movies or television shows.⁴² In 1998, Congress described the DMCA’s notice and takedown procedures as a “‘formalization and refinement of a cooperative process that has been employed to deal efficiently with network-based copyright infringement.’”⁴³ Yet, the efficiency with which the law allows copyright owners to defend against blatant piracy potentially corrupts its application to mashed-up UGC. On its face, Section 512’s takedown procedure does not distinguish between blatantly pirated works and transformative works that require a careful fair-use analysis. At least one federal court, however, has suggested that an implied requirement exists.⁴⁴

In early 2007, Stephanie Lenz created a 29-second digital video showing her toddler son dancing as Prince’s song “Let’s Go Crazy” played in the background.⁴⁵ She uploaded the video to YouTube to share it with friends and family members.⁴⁶ Four months after uploading the video, Universal Music Corp. sent YouTube a notification of infringement. YouTube subsequently blocked access to the video. Lenz filed a valid counter notification and YouTube replaced the video after six weeks.⁴⁷

Lenz later sued Universal, arguing that Section 512(c)(3)(A)(v)—which requires complainants to have a “good faith belief” that content listed in a takedown notice actually infringes—implies that the complainant must also consider whether the content is subject to fair use.⁴⁸ The federal district court agreed. The court admitted

that “[u]ndoubtedly, some evaluations of fair use will be more complicated than others,”⁴⁹ but it found that “in the majority of cases, a consideration of fair use will not be so complicated as to jeopardize a copyright owner’s ability to respond rapidly to potential infringements.”⁵⁰ The court further held that failure to consider fair use is sufficient to sustain a claim of misuse of the takedown process under Section 512(f).⁵¹

Takedowns have affected more than mothers and toddlers. During the 2008 election season, takedown notices were used against campaign videos posted to YouTube by both presidential campaigns.⁵² In October, the McCain campaign responded by sending a letter to YouTube expressing frustration that a number of its videos had been blocked due to infringement notifications by several major television networks.⁵³

The blocked McCain videos each featured short excerpts of network news broadcasts, each less than 10 seconds in length. The McCain campaign’s letter characterized the copied clips as “a basis for commentary on the issues presented [therein], or on the reports themselves” and called them “paradigmatic examples of fair use. . . .”⁵⁴ The letter went on to say that the statutory counter notice procedure was inadequate to protect its freedom of speech, “particularly in the context of a fast-paced political campaign,” due to the mandatory 10-day blackout period.⁵⁵

The McCain campaign’s letter proposed that YouTube itself should “commit to a careful legal review, including fair use analysis, to determine whether the infringement claim has merit,” before acting upon infringement notices.⁵⁶ In response, YouTube stated that the volume of material on its site makes it impossible to attempt to conduct an independent fair use analysis on each file.⁵⁷ It also declined to give any special treatment to videos from the presidential candidates, or even to videos containing political speech in general. YouTube also stressed that content uploaders can play a role in improving the notice and takedown process by speaking out and holding “abusive” complainants accountable for misuse of the process.⁵⁸

Evolving Toward Future Challenges

The complexities involved in adapting the DMCA and other copyright laws to the UGC phenomenon are immense. As suggested above, current law is not ideal. The DMCA’s current notice and takedown procedure seeks to balance owner-friendly copyright enforcement mechanisms with free speech safeguards. The UGC phenomenon is throwing the system off balance in ways that pose more risk upon freedoms of speech. The constantly increasing ease with which media content can be digitally recorded, mashed, and posted online means that copyright enforcement processes must keep up with an ever increasing pool of potentially infringing content. In the future, the media industry may face a tipping point,

where the costs of enforcement exceed the cost of adjusting their respective business models to accept—or even embrace—infringing UGC.⁵⁹ For now, the industry is intent on finding new ways to continue current enforcement strategies.

Today's criteria for judging fair use, remarkably similar to the criteria first established by Justice Story in 1841,⁶⁰ are not capable of efficiently handling the massive volume of UGC. They are intentionally constructed broadly, so as to be applicable to a wide variety of situations involving a wide variety of media.⁶¹ Additionally, the Supreme Court has held that no form of copying is entitled to a legal presumption of fair use.⁶² Every situation, therefore, requires a detailed, fact-based investigation by an experienced and knowledgeable analyst. Yet that form of analysis may already be impossible to apply on the massive scale needed to properly deal with UGC.

Two Sets of Principles

In October 2007, a coalition of major media conglomerates (CBS, NBC, FOX, Disney, and Viacom, among others) and major ISPs (MSN Video, MySpace, and Veoh, among others) released a set of "Principles for User Generated Content Services" (the industry principles).⁶³ These principles clearly sketched the consensus vision that these entities hold for the future of copyright enforcement on UGC.

Their vision involves developing and implementing methods for preventing infringing content from ever being uploaded to the Internet. The industry principles state that "UGC Services should use effective content identification technology with the goal of eliminating from their services all infringing user-uploaded audio and video content for which Copyright Owners have provided Reference Material."⁶⁴ "Identification technology" is a reference to the digital filtering technology currently being developed by the media industry. When implemented by ISPs, these programs would allow an individual user's intended UGC uploads to be "sniffed" against a digital database of reference keys maintained by the media corporations.⁶⁵ Uploads containing recognizable copyrighted content would be rejected or removed automatically.⁶⁶

However, digital filtering technology is still in its infancy. It is difficult to know whether a technical filter, in practice, would be able to accurately distinguish between a blatantly pirated video file and a legal transformative mash-up.⁶⁷ The industry's standards state that "Copyright Owners and UGC Services should cooperate to ensure that the Identification Technology is implemented in a manner that effectively balances legitimate interests in blocking infringing user-uploaded content, . . . and accommodating fair use."⁶⁸ However, they provide no specific standards for how fair-use analysis might be conducted if a piece of reference material is detected in an individual user's intended upload. Rather, the principles suggest that an ISP's default response should be to reject the upload entirely, unless the copyright owner gives

prior permission allowing the copied content to pass through the filter.⁶⁹

Reacting to the industry's vision, the Electronic Freedom Foundation, ACLU of Northern California, and other academic entities and free-speech groups collaborated to create their own "Fair Use Principles for User Generated Video Content" (the fair-use principles).⁷⁰ These principles are intended to correct a perceived bias in the industry principles by "provid[ing] concrete steps that [the industry] can and should take to minimize the unnecessary, collateral damage to fair use. . . ."⁷¹

In response to digital filtering technology, the fair use principles counter the industry principles' default rejection of content matching copyrighted reference material. Rather, they propose that ISPs should not reject uploads in which the video track matches but the audio track does not; or, alternatively, where less than a certain percentage (e.g., 90 percent) of an upload matches reference material.⁷² Meeting these factors, it suggests, can be generally indicative of a transformative work.

Additionally, addressing uploads already posted to ISPs, the fair-use principles advocate a "wide berth for transformative, creative uses" of copied content. They essentially call for near complete allowance of copied content in mashups, saying that "content owners should, as a general matter, avoid issuing DMCA . . . takedown notices for uses of their content that constitute fair uses or that are noncommercial, creative, and transformative in nature."⁷³

UGC's Effect on the Future of the Fair-Use Analysis

It is important to note that the watchdog groups' fair-use principles, although a plausible suggestion for ensuring that fair-use principles are upheld in the face of automatic filtering technology, are inconsistent in some ways with the current judicial interpretation of the Copyright Act's fair-use provision. The Supreme Court held in *Campbell v. Acuff-Rose Music, Inc.* that "the task [of determining fair use] is not to be simplified with bright-line rules, for the statute, like the doctrine it recognizes, calls for case-by-case analysis."⁷⁴ The Court overturned a lower Circuit Court's narrow, presumptive fair-use analysis and stated that it is inappropriate to cut short an inquiry into a fair-use claim by restricting the analysis to only a few relevant facts.⁷⁵ Rather, the Court held that each fair-use factor—the purpose and character of the work, the nature of the copyrighted work, the amount and substantiality of the portion used, and the effect upon the potential market for the copyrighted work—must be fully considered.⁷⁶

The Court's approach requires a nuanced, fact-intensive analysis, and most importantly, sound judgment. It is doubtful that reliance on only a handful of binary indicators would qualify as a true fair-use analysis. Such an approach would not likely withstand judicial scrutiny under

Campbell. If the volume of transformative UGC continues to grow, it may therefore be necessary for Congress or the courts to create a separate, revised set of fair-use factors specifically intended for UGC. While this would represent a sea change in the fair-use doctrine, it may eventually be the only way to adapt copyright law to UGC without destroying UGC as a legitimate form of speech.

One way to help contain the fair use problem would be in reducing the number of Section 512(c)(3) takedown notices issued by copyright owners. Ideally, a copyright owner should not issue a takedown notice unless he or she has a good-faith belief that a file infringes.⁷⁷ Strong candidates for fair use should be left alone. Yet because these notices are not public documents, copyright owners are held largely unaccountable for misuse of the process. Making takedown notices public would bring daylight to the process, exposing it to watchdog groups and the media. It would likely reduce the number of takedowns targeting files such as Ms. Lenz's video, which, if actually subjected to a fair-use analysis, would be almost certainly declared legal. Furthermore, public disclosure can be implemented without fundamentally altering the DMCA or the fair-use factors.

Conclusion

The DMCA must now deal with more than blatant Internet piracy. As creative individuals produce more transformative, mashed-up UGC and upload it to ISPs such as YouTube, copyright enforcement mechanisms will be forced to adapt to situations in which copyright infringement is not clear cut. As more and more UGC features highly protected forms of speech, the importance of proper decision making increases. All of this needs to occur in an environment where literally hundreds of thousands of new works are created on a daily basis. Going forward, two questions exist.

First, who holds the primary burden of protecting copyrights and preserving fair use: the copyright owners or the ISPs? Today, the DMCA grants copyright owners much discretion in initiating notice and takedown procedures, while ISPs are encouraged to remain neutral entities and encourage the industry and public to serve as each others' legal watchdogs. Yet, as suggested by the *Lenz* decision, the evolving nature of UGC may eventually lead courts to constrict copyright owners' wide enforcement discretion.

Second, how can a copyright enforcement process that requires a deliberate, fact-sensitive analysis be applied to the inundating volume of UGC uploads? This is a difficult question. At present, the media industry sees nearly automatic digital filtering processes as the most effective way to cope with the increasing volume of UGC. However, automatic processes raise significant questions about the future character of the fair-use doctrine and risk

transforming fair use into a fixed, mechanical analysis, rather than a flexible, fact-intensive one. An indirect approach to containing this problem (and thereby reducing the number of takedown notices sent) could be achieved by bringing the process out of the shadows and making all takedown notices public documents.

Endnotes

1. See 117 U.S.C. § 512.
2. *Id.* at § 107.
3. Edward Lee, *Warming Up to User-Generated Content*, 2008 U. Ill. L. Rev. 1459, 1501 (2008).
4. Branwen Buckley, *SueTube: Web 2.0 and Copyright Infringement*, 31 Colum. J. L. & Arts 235, 238 (2008).
5. *Id.*
6. Robert P. Latham, Carl C. Butzner, and Jeremy T. Brown, *Legal Implications of User-Generated Content: YouTube, MySpace, Facebook*, 20 No. 5 Intell. Prop. & Tech. L. J. 1, 1 (2008).
7. *Id.*
8. See Lee, *supra* note 3, at 1506.
9. See *id.*
10. *Id.* at 1500.
11. *Id.* at 1513.
12. *Id.* at 1502 (quoting J.D. Lasica, *Darknet: Hollywood's War Against the Digital Generation* 14 (2005)).
13. Charles J. Biederman and Danny Andrews, *Applying Copyright Law to User-Generated Content*, Los Angeles Lawyer, May 31, 2008, at 12.
14. Lee, *supra* note 3, at 1504.
15. 521 U.S. 844, 870 (1997). Further lauding the potential of speech on the Internet, the Court noted that "[t]hrough the use of chat rooms, any person with a phone line can become a town crier with a voice that resonates farther than it could from any soapbox. Through the use of Web pages, mail exploders, and newsgroups, the same individual can become a pamphleteer." *Id.*
16. Lee, *supra* note 3, at 1505 (quoting *Cohen v. California*, 403 U.S. 15, 25 (1971)).
17. 17 U.S.C. § 512(c); *Id.* § 512(i)(1); see also Eugene C. Kim, *YouTube: Testing the Safe Harbors of Digital Copyright Law*, 17 S. Cal. Interdisc. L. J. 139, 153-54, 160-61 (2007) for a more detailed explanation of the DMCA's impact on ISPs that host UGC and how YouTube, in particular, meets the eligibility requirements for safe harbor under the DMCA.
18. 17 U.S.C. § 512(c)(1)(A)(i).
19. *Id.* at § 512(c)(1)(A)(ii).
20. *Id.* at § 512(c)(1)(B).
21. *Id.* at § 512(i)(1)(A).
22. *Id.* at § 512(i)(1)(B).
23. *Id.* at § 512(c)(1)(C).
24. *Id.* at § 512(c)(3)(A).
25. 17 U.S.C. § 512(c)(3)(A)(ii-iii).
26. *Id.* at § 512(c)(3)(A)(v).
27. Buckley, *supra* note 2, at 244-45.
28. 17 U.S.C. § 512(g)(3)(C).
29. *Id.* at § 512(g)(2)(C).
30. *Id.* at § 512(f).

31. Jennifer M. Urban and Laura Quilter, *Efficient Process or "Chilling Effects"? Takedown Notices Under Section 512 of the Digital Millennium Copyright Act*, 22 Santa Clara Computer & High Tech. L. J. 621, 684 (2006).
32. Buckley, *supra* note 4, at 238–39.
33. *Id.*
34. *Io Group, Inc. v. Veoh Networks, Inc.*, No. C06-03926 HRL, 2008 WL 4065872 at *1 (N.D. Cal. Aug. 27, 2008).
35. Greg Sandoval, *Viacom Demands Google, YouTube to Pull 100,000 Clips*, CNET.com, Feb. 2, 2007, available at http://news.cnet.com/8301-10784_3-6155737-7.html.
36. Urban and Quilter, *supra* at note 31, at 681.
37. *Id.* at 682.
38. *Id.* at 638.
39. *Id.* at 626; 17 U.S.C. § 512(g)(1).
40. While this is generally true, certain forms of UGC files permit solutions short of full takedown. For example, if mashed-up UGC features original video content accompanied by a copyrighted song on the audio track, YouTube allows a user to select to have his file's audio track automatically muted, rather than having the file removed in its entirety. Greg Sandoval, *Users, Not Labels, Silence YouTube Music Videos*, CNET.com, Jan. 14, 2009, available at <http://news.cnet.com/users-not-labels-silence-youtube-music-videos>.
41. Kim, *supra* note 17, at 143.
42. Buckley, *supra* note 4, at 239 (quoting Vidmeter.com, *Analysis of Copyrighted Videos on YouTube.com* 1 (2007)).
43. Kim, *supra* note 17, at 157 (quoting H.R. Rep. No. 105-551, pt. 2, at 46 (1998)).
44. *See Lenz v. Universal Music Corp.*, 572 F.Supp.2d 1150 (N.D. Cal. 2008).
45. *Id.* at 1151–52.
46. *Id.* at 1152.
47. *Id.*
48. *Id.* at 1154; 17 U.S.C. § 512(c)(3)(A) (requiring that a notification of claimed infringement must [include] . . . (v) A statement that the complaining party has a good faith belief that use of the material in the manner complained of is not authorized by the copyright owner, its agent, or the law").
49. *Id.* at 1155.
50. *Lenz*, 572 F. Supp. 2d at 1155.
51. *Id.*
52. Amy Herder, *Online Political Ads Spark Copyright Battle*, NationalJournal.com, Nov. 12, 2008, available at www.nationaljournal.com (search for title).
53. *Id.*
54. Letter from Trevor Potter, General Counsel, McCain-Palin 2008, to Chad Hurley, CEO, YouTube, *et al.* (Oct. 13, 2008), available at <http://www.eff.org/files/McCain%20YouTube%20copyright%20letter%2010.13.08.pdf>.
55. *Id.*
56. *Id.* The McCain campaign's suggestions were supported by the ACLU and Electronic Freedom Foundation. Letter from Fred von Lohmann, Senior Intellectual Property Attorney, Electronic Freedom Foundation, to senior executives from television broadcasting networks (Oct. 20, 2008), available at http://www.aclu.org/images/asset_upload_file777_37252.pdf.
57. Letter from Zahavah Levine, Chief Counsel, YouTube, to Trevor Potter, General Counsel, McCain-Palin 2008 (Oct. 14, 2008), available at <http://www.eff.org/files/081014YouTube%20Response%20to%20Sen.%20McCain.pdf>. Experts—as well as courts—agree that an ISP should not be expected to manually screen every file that an individual attempts to upload to its servers. *See, e.g., Russ VerSteeg, Viacom v. YouTube: Preliminary Observations*, 9 N.C. J. L. & Tech. 43 (2007) (arguing that “the DMCA places the burden on the copyright owner, not the ISP”); *Io Group, Inc.*, 2008 WL 4065872 at *19 (finding, in response to claims that an ISP even smaller than YouTube should be responsible for prescreen submissions to detect copyright infringement, that “no reasonable juror could conclude that a comprehensive review of every file would be feasible”).
58. Letter from Zahavah Levine, *supra* note 57.
59. *See Lee, supra* note 3, at 1515.
60. Roger L. Zissu, *Funny is Fair: The Case for According Increased Value to Humor in Copyright Fair Use Analysis*, 55 J. Copyright Soc'y U.S.A. 393, 398 (2008) (citing *Folsom v. Marsh* 9 F. Cas. 342, 348 (C.C.D Mass. 1841)).
61. *Id.*
62. *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 585 (1994).
63. Principles for User Generated Content Services, available at <http://ugcprinciples.com>.
64. *Id.* at Principle # 3.
65. *See Kim, supra* note 17, at 146; *see also Buckley, supra* note 4, at 262.
66. *Id.*
67. Jane C. Ginsburg, *Separating the Sony Sheep from the Grokster Goats: Reckoning the Future Business Plans of Copyright-Dependent Technology Entrepreneurs*, 50 Ariz. L. Rev. 577, 588 (2008).
68. Principles for User Generated Content Services, at Principle # 3(d).
69. *Id.* at Principle # 3(a).
70. Fair Use Principles for User Generated Video Content, available at <http://www.eff.org/issues/ip-and-free-speech/fair-use-principles-usergen>.
71. *Id.* at Preamble.
72. *Id.* at Principle # 2(a).
73. *Id.* at Principle # 1 (emphasis in original).
74. 510 U.S. at 577 (1994) (interpreting 17 U.S.C. § 107).
75. *Id.* at 583.
76. *Id.* at 594.
77. *See* 17 U.S.C. § 512(c)(3)(A)(v).

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TEAM: Together Every Club in a Professional Sports League Achieves More Collectively—But What Are the Antitrust Implications?

By James J. Paterson

Professional sporting leagues and their member teams cooperate on a regular basis. In part this is essential, as they are dependent on each other to produce the necessary joint product—the games themselves—to exist. However, the leagues and teams often take collective actions to streamline operations and/or maximize revenue.

Taking part in these collective actions has led to the leagues facing numerous claims that they have colluded with their member teams to restrain trade within a market, in breach of section 1 of the Sherman Act.¹ In turn, leagues have consistently argued that their economic interests and those of their member teams are so completely aligned that they should be treated as a single economic entity, thus incapable of colluding or conspiring to restrain trade, citing the Supreme Court's determination in *Copperweld Corp. v. Independence Tube Corp.*,² as a relevant guiding precedent.

This "single economic entity" argument has again been raised by a number of professional sporting leagues in recent Circuit Court matters. It was argued successfully by the National Football League (NFL) in the Seventh Circuit in *American Needle, Inc. v. NFL*,³ but was rejected by the Second Circuit when raised by a Major League Baseball (MLB) affiliated entity in *Major League Baseball Properties, Inc. v. Salvino, Inc.*⁴ The argument is again at issue in the current antitrust dispute between the National Hockey League (NHL) and the owners of the New York Rangers professional ice hockey team, Madison Square Garden L.P. (MSG).

Clearly it is significant to consumers if a group of independently owned entities is considered immune from the scope of section 1 of the Sherman Act, as it would potentially allow those entities to collude to fix prices and limit output without repercussion, thus damaging consumer welfare.

This article argues that the actions of the leagues and their teams should not be considered that of a single economic entity, but instead that of a joint venture of independently owned and controlled entities, and subject to scrutiny under section 1 of the Sherman Act. It concludes with a review of the current antitrust dispute between the NHL and MSG.

Key Antitrust Principles

The competitive conduct of businesses is regulated by the Sherman Act,⁵ which has the broad aim of fostering competition between entities to preserve a competitive

marketplace which acts to protect consumer welfare.⁶ Commercial activities of entities are typically considered to harm the competitive process when they obstruct "the achievement of competition's basic goals—lower prices, better products, and more efficient production methods,"⁷ or when the result is a "reduction in output and an increase in prices in the relevant market."⁸

For two separate entities to be considered to be in violation of section 1 of the Sherman Act, their activities must be considered to restrain free trade within a market, thus damaging consumer welfare, without a legitimate policy reason for the restraint—that is, an unreasonable restraint.

"[T]he actions of the leagues and their teams should not be considered that of a single economic entity, but instead that of a joint venture of independently owned and controlled entities, and subject to scrutiny under section 1 of the Sherman Act."

Certain agreements that restrain trade, such as horizontal price-fixing and market allocation, are considered to be so inherently anticompetitive that each is *per se* illegal under section 1, without any need for the courts to determine the actual market impact of the arrangement.⁹ Other agreements that restrain trade have the potential to create further market efficiencies, such as mergers, joint ventures, and various vertical agreements. Those arrangements are not considered *per se* illegal, but instead are reviewed by the courts under either a "quick look" or a "rule of reason" analysis. Under both of those standards, the court reviews the arrangement's actual impact on market power and market structure to determine whether it should be permitted, seeking to determine whether the conduct in question has procompetitive effects that could not have been achieved through less restrictive means.

Pre-Copperweld Antitrust Review of Professional Sporting Leagues

Pre-Copperweld, the Second Circuit found in *North American Soccer League v. National Football League (NASL)*,¹⁰ that the NFL and its teams did not act as a single entity, and were thus subject to section 1 scrutiny.

In *NASL*, the North American Soccer League challenged the validity of the NFL's cross-ownership rule imposed upon the owners of NFL teams. In essence, the cross-ownership rule prohibited NFL team owners from also obtaining a controlling interest in any other major league professional sports team. The North American Soccer League considered this rule excluded it from a substantial share of the market for professional sports capital and entrepreneurial skill, and thus an illegal restraint of trade.

The Second Circuit considered that NFL teams were separately owned, discrete legal entities that did not share expenses, capital expenditures, profits or all revenues with each other. The Court noted that a loophole immunization of the NFL from section 1 scrutiny would be potentially dangerous to consumer welfare, as it would permit teams to enter into arrangements where their benefits could be outweighed by the anticompetitive effects without any antitrust ramifications. It considered that "the restraint might be one adopted more for the protection of individual league members from competition than to help the league."¹¹ The Second Circuit considered that:

The sound and more just procedure is to judge the legality of such restraints according to well-recognized standards of our antitrust laws rather than permit their exemption on the ground that since they in some measure strengthen the league competitively as a "single economic entity," the combination's anticompetitive effects must be disregarded.¹²

As a result, the Court concluded that "[t]he characterization of the NFL as a single economic entity does not exempt from the Sherman Act an agreement between its members to restrain competition."¹³

The NFL attempted to appeal the decision to the U.S. Supreme Court, and while Justice Rehnquist provided a strong dissenting opinion, *certiori* was not granted. Therefore, *NASL* established the position within the Second Circuit that professional sporting leagues and separately owned member teams were not single economic entities.

The Second Circuit's position in *NASL* was reinforced in other pre-*Copperweld* decisions made by other Circuit Courts, including the Ninth Circuit in *L.A. Mem'l Coliseum Commission v. NFL (L.A. Coliseum)*,¹⁴ the Third Circuit in *Mid-South Grizzlies v. National Football League*,¹⁵ and also in the D.C. Circuit Court in *Smith v. Pro-Football, Inc.*,¹⁶ in each case mainly due to the leagues and teams being separately owned and incorporated.

In the most well-known of those decisions, *L.A. Coliseum*, the Ninth Circuit took particular interest in the Second Circuit's earlier review of the NFL's operations in *NASL*. It noted that, while the Second Circuit had "recognized the cooperation necessary among league members,

even characterizing the NFL as a joint venture," it had "nonetheless applied rule of reason analysis . . ." in determining whether its conduct was permissible.¹⁷

The Ninth Circuit agreed with the NFL that the league and the clubs had certain common purposes and must cooperate to produce the NFL season. However, the Court determined that circumstance of itself was not sufficient to class the NFL and its teams as a single entity, ruling that the necessity for independent businesses to cooperate in order to produce an output did not preclude section 1 scrutiny.¹⁸

Application of the Sherman Act Under *Copperweld*

As a matter of law, a single entity cannot conspire with itself to restrain trade. However, it has long been argued by entities comprising a corporate group of companies that their interests are so consistent and intrinsically linked that they should be treated as a single economic entity, bringing an exemption from the scope of section 1 of the Sherman Act.

The Supreme Court considered this issue in *Copperweld*, where it found that the coordinated activities of a parent and its wholly owned subsidiary had a common, not disparate, objective, and the general corporate actions of the two were guided or determined by one corporate consciousness. The Court referred to this as a "complete unity of interest."¹⁹

In finding the actions of a parent and a wholly owned subsidiary to be that of a single enterprise, the Supreme Court stated that:

They are not unlike a multiple team of horses drawing a vehicle under the control of a single driver. With or without a formal "agreement," the subsidiary acts for the benefit of the parent, its sole shareholder. If a parent and a wholly owned subsidiary do "agree" to a course of action, there is no sudden joining of economic resources that had previously served different interests, and there is no justification for § 1 scrutiny.²⁰

As the parent had the potential to assert full control at any moment if the subsidiary failed to act in the parent's best interests, the Court found that a parent and a wholly owned subsidiary *always* had a unity of purpose or a common design,²¹ and should therefore not be subject to scrutiny under section 1 of the Sherman Act.

Post-*Copperweld* Antitrust Review of Professional Sporting Leagues

Post-*Copperweld*, both the Eighth and the First Circuit Courts have determined that professional sports leagues should not be considered single entities.

The Eighth Circuit in *St. Louis Convention & Visitors Comm'n v. Nat'l Football League*²² expressly followed the *L.A. Coliseum* determination, finding the NFL and its teams to each be separate economic entities. In *Sullivan v. NFL*,²³ the First Circuit found that NFL member clubs did compete in several ways off the field, "which itself tends to show that the teams pursue diverse interests and thus are not a single enterprise under [section] 1."²⁴

The First Circuit also briefly considered the application of the single-entity defense to professional sporting leagues in *Fraser v. Major League Soccer*.²⁵ While the corporate structure of Major League Soccer (MLS) was slightly different than that of other sporting leagues and member teams,²⁶ the First Circuit found that the MLS and the controllers of its teams did not meet the *Copperweld* requirement of "complete unity of interests."²⁷ The Court concluded that the MLS structure provided the potential for actual competition between the different entities, which was akin to that found in the more traditional ownership structure of sporting leagues,²⁸ and stated that "the case for expanding *Copperweld* is debatable and, more so, the case for applying the single entity label to MLS."²⁹

The Seventh Circuit is the only Circuit Court to apply the single-entity defense to professional sporting leagues and their member teams, first in *Chicago Professional Sports Limited Partnership v. National Basketball Ass'n (Bulls IV)*,³⁰ and more recently in *American Needle*.

In *Bulls IV*, the Seventh Circuit determined a dispute between the owners of the Chicago Bulls professional basketball team, the television superstation broadcaster WGN, and the National Basketball Association (NBA), concerning the television broadcast of Chicago Bulls games outside of NBA authorized national television broadcasters. In short, the Chicago Bulls wanted to broadcast more of its games over WGN's television network in competition with the NBA-authorized broadcasters. The NBA, through a vote of the team owners, stopped the Chicago Bulls from doing so, which the Bulls considered to be an unlawful restraint of trade.

The Seventh Circuit indicated that under *Copperweld* there was no reason why a typical professional sports league would not be able to be treated as a single firm for the purposes of the Sherman Act as it "produces a single product; cooperation is essential (a league with one team would be like one hand clapping); and a league need not deprive the market of independent centers of decisionmaking."³¹

However, based on both the Supreme Court's commentary in *Brown v. Pro Football, Inc.* (discussed below)³² and on the differing opinions in other jurisdictions, the Seventh Circuit majority also concluded that it was possible to characterize sports leagues as both unilateral actors and also joint ventures, depending on the particular activity and market in which they were operating.³³ It considered that each scenario should be judged on a case-

by-case basis. In this particular activity within the television broadcast market, the Court considered the NBA to be closer to a single firm than to a group of independent firms, and therefore not subject to section 1 review.

Supreme Court Consideration

The wider application of *Copperweld* to the activities of professional sports leagues and their member teams has not yet been tested in the Supreme Court.

The Supreme Court has only briefly considered and commented upon the application of the defense to sporting leagues, in *Brown*, where it made note of the intricate and sometimes complicated relationship between sports leagues and their member teams. The Supreme Court stated that the "clubs that make up a professional sports league are not completely independent economic competitors, as they depend upon a degree of cooperation for economic survival."³⁴ Yet it did not provide any further guidance on the parameters of the *Copperweld* decision.

The Supreme Court has, however, ruled on the antitrust implications of the pricing activities of joint ventures. In *Texaco, Inc. v. Dagher (Dagher)*,³⁵ it considered whether a lawful economically integrated joint venture was permitted to set the prices at which it sells its products (in a literal sense, price fixing).

Under a joint venture agreement, Texaco and Shell Oil had agreed to pool their resources to form Equilon Enterprises and were to share the risks of, and the profits from, Equilon's activities of refining and selling gasoline. The joint venture gasoline product was sold at the one price set by Equilon (albeit that it was sold under the two existing Texaco and Shell brand names), which was alleged in *Dagher* to amount to price fixing, a *per se* prohibition under section 1 of the Sherman Act.

The Court considered that the business practice being challenged was the core activity of the joint venture itself, and found that a legitimate joint venture "... must have the discretion to determine the prices of the products that it sells, including the discretion to sell a product under two different brands under a single, unified price."³⁶

The Supreme Court noted that this was consistent with its earlier ruling in *Broadcast Music, Inc. v. Columbia Broadcasting System, Inc.*, which stated: "[J]oint ventures and other cooperative arrangements are ... not usually unlawful, at least not as price fixing schemes, where the agreement on price is necessary to market the product at all."³⁷

As a result, the internal pricing decisions of legitimate joint ventures are not considered to be *per se* unlawful under section 1 of the Sherman Act. However, this does not end the antitrust inquiry of the ancillary activities of joint ventures, as the Court must still "determine whether the nonventure restriction is a naked restraint on trade, and thus invalid, or one that is ancillary to the legitimate

and competitive purposes of the business association, and thus valid.”³⁸

Review of Application of *Copperweld* to Professional Sporting Leagues

Professional sporting leagues and their member teams cooperate on a regular basis. In part this is essential, as they are dependent on each other to produce the necessary joint product—the games themselves—to exist. However, the leagues and teams often take collective actions to streamline operations and/or maximize revenue.

Undoubtedly, a successful professional sports league requires cooperation between its member teams in order to be a commercial success. Courts have recognized that “clubs that make up a professional sports league are not completely independent economic competitors, as they depend upon a degree of economic cooperation for survival.”³⁹ Indeed, thanks to cooperative agreements between the respective teams in areas such as revenue sharing, players’ movement among teams, and the drafting of amateur athletes, the major U.S. professional sports leagues are generally able to maintain a competitive balance and continued fan interest.⁴⁰

However, rather than justifying an exemption of section 1 of the Sherman Act, the competitive operation and structure of sports leagues and their member teams is typical of joint ventures in other industries, where joint rules are established to operate effectively. Indeed, Circuit Justice Cudahy’s concurring opinion in *Bulls IV* flagged this treatment as the appropriate approach.

In *Bulls IV*, Justice Cudahy suggested that it was a plausible proposition that independent ownership of teams should presumptively preclude treatment as a single entity.⁴¹ Such an analysis would not mean that all cooperation among separately incorporated firms would be forbidden by section 1 of the Sherman Act, only that such cooperation must ordinarily be justified under the rule of reason analysis.

This article contends that the commercial activities of professional sporting leagues and their teams should be treated in the same legal manner as a typical joint venture—that is, their conduct falls under the scope of section 1 of the Sherman Act, but they are permitted to implement competitive restrictions that promote the most efficient delivery of their product to consumers.⁴²

Members of a joint venture cooperate in order to accomplish certain specific objectives, which does not preclude them from continuing to compete in other ways.⁴³ The members integrate resources to accomplish a specific efficiency objective, such as the production or marketing of a new product, often a product which none of the partners could have developed on their own⁴⁴ (such as a professional sporting contest between two separately owned teams governed by league rules). While the part-

ners operate collectively in certain areas, a joint venture does not involve a complete integration of the members’ operations, and each continues its separate existence and continues to compete with its partners outside the scope of the venture.⁴⁵

Similarly, professional sports leagues have integrated resources in order to produce their contests, and have operated in a cooperative fashion through collectively establishing league rules governing behavior of the teams. Typical of a joint venture, a member team of each league is separately owned and managed, “conduct[ing] its own accounting, keeps its own profits, makes its own financial and investment decisions, and generally succeeds or fails on its own.”⁴⁶

Teams also clearly compete on a number of economic grounds, with obvious local competition between teams which co-exist within the immediate surrounds of larger cities such as New York, Los Angeles and Chicago as they battle for the hearts, minds and wallets of fans, sponsors and advertisers. Economic competition also occurs among all the teams in a league in areas such as player coaching, administrative staff salaries, the terms of stadium leases, the pursuit of the corporate dollar for stadium advertising, and the licensing of corporate boxes, as well as branding on team uniforms.

Indeed, the inter-league competition between teams has only intensified in recent times. The increase in the amount of overseas-raised players now playing in various leagues has led to competition between teams on an international scale. Star athletes such as Japan’s Daisuke Matsuzaka (Boston Red Sox) and Ichiro Suzuki (Seattle Mariners) have been introduced to MLB, Germany’s Dirk Nowitzki (Dallas Mavericks) and China’s Yao Ming (Houston Rockets) to the NBA, as well as a vast array of players of Canadian, Scandinavian and Russian origin now playing within the NHL ranks. Thanks to the introduction of those international players (among others), teams within the same league are now actively competing for overseas eyes and international advertising and merchandising dollars.

Furthermore, this article argues that to extend the application of the single-entity defense to professional sporting leagues consisting of independently owned teams on the basis of *Copperweld* goes beyond the intended scope of the Supreme Court’s judgment in that matter.

The Supreme Court carefully and narrowly framed the question in *Copperweld* as “whether the coordinated acts of a parent and its wholly owned subsidiary can, in the legal sense contemplated by section 1 of the Sherman Act, constitute a combination or conspiracy.”⁴⁷ Absent any dicta commentary on the topic, the Court’s holding should be expressly limited to that particular scenario of a parent and a wholly owned subsidiary.⁴⁸ In fact, Chief Justice Burger was very careful to emphasize that the Court was *not* considering all the circumstances, “if any,

[under which] a parent may be liable for conspiring with an affiliated corporation it does not completely own.”⁴⁹ The Court provided no further commentary of any potential expansion past those specific circumstances.

The corporate structures of the four major professional sporting leagues in the United States—MLB, NHL, NFL and the NBA—do not meet that specific standard analyzed in *Copperweld*. The teams are not only separately incorporated, but they are also separately owned and do not share the single “corporate consciousness” or “complete unity of interest” required under *Copperweld*.

The Supreme Court in *Copperweld* flagged its concern in the potential extension of the scope of single-entity defense, stating that “[c]oncerted activity is fraught with anticompetitive risk [because] [i]t deprives the marketplace of the independent centers of decision making that competition assumes and demands.”⁵⁰ Such comment infers that the *Copperweld* extension of the single-entity defense to parent/wholly owned subsidiaries should not be then further extended without careful antitrust consideration—consideration that would be expected to be expressly included within the Supreme Court’s judgment if it was to be extended further.

Despite the requirement for some cooperation and the degree of interdependence between the league and its member teams, sports teams fall far short of the common control and total unity of interest exhibited by a parent and its wholly owned subsidiary. *Copperweld* reflects a narrow ruling that is limited to parent/wholly owned subsidiary relationships, and it should not be used as justification to extend the single-entity defense to the actions of sports leagues and their member teams.

Recent Seventh and Second Circuit Application of *Copperweld*

In August 2008 the Seventh Circuit revisited the single entity issue in *American Needle*, an antitrust dispute surrounding an exclusive license granted by NFL Properties (a jointly owned affiliate of the NFL and its member teams) to the sporting apparel giant Reebok, to design, manufacture and sell headwear carrying the authorized names and logos of the NFL teams.

In conducting a review based on the *Copperweld*’s principles, the District Court believed cooperative marketing did serve to promote NFL football and fell on the “unilateral” action side of the line,⁵¹ stating that:

to require that 32 teams each take total responsibility for the protection and marketing of its own logos and trademarks in a nationwide market would cause each to be at a competitive disadvantage with other leagues with integrated marketing. Sharing the revenues . . . serves the

interest in having the teams relatively competitive.⁵²

On appeal to the Seventh Circuit, the Court followed its determination in *Bulls IV* by again advocating a piecemeal review, this time focusing on the NFL and its teams’ activities in promoting NFL football through the collective licensing of the teams’ intellectual property. The Seventh Circuit noted that for the NFL and its teams to be considered a single entity under the *Copperweld* principles, the arrangement should not function to deprive the marketplace of the independent sources of decision-making.

Based in part on the longstanding arrangement of NFL Properties acting on behalf of the NFL and the teams (they had been performing this role since 1963), the Seventh Circuit indicated that it made “little sense to assert that each individual team has the authority, if not the responsibility, to promote the jointly produced NFL football.”⁵³ The Seventh Circuit found that in this instance the NFL and its teams *did* act as a single entity, and were not subject to scrutiny under section 1 of the Sherman Act.

While NFL Properties may have been acting on behalf of the league and its teams for a very long period of time, this article considers the decision to be erroneous. Each individual team has the authority to control the commercialization of its own intellectual property, such as its logo. Certainly, a team may choose to assign those rights to the league or an affiliated entity to perform those tasks on its behalf, but that is a commercial decision for the team that is not borne of necessity. Treating the NFL and its teams as a single entity would therefore deprive the marketplace of an independent source of decision-making, and is inconsistent with *Copperweld*.

Given the existing precedent established in the Second Circuit through *NASL* that professional sporting leagues and their teams *are* subject to section 1 of the Sherman Act, (as well as the determinations of the First, Eighth and Ninth Circuits noted earlier), this article concludes it is unlikely the *American Needle* position will be adopted by the Second Circuit.

This article suggests that the correct standard of antitrust review of the activities of leagues and their member teams was the rule of reason standard used by the Second Circuit in *Salvino*, determined in September 2008. Similar to *American Needle*, *Salvino* concerned a dispute involving a league and its teams granting an exclusive license for the use of their collective intellectual property rights, and a disgruntled ex-manufacturer/distributor no longer able to produce league affiliated goods (here, Major League Baseball Properties (MLBP) and Salvino Inc., the maker of plush bears with sewn-on team uniforms).

In *Salvino*, the Second Circuit affirmed the earlier District Court determination⁵⁴ that the conduct of the parties should be subject to section 1 review, finding that both

the organization of MLBP and its granting of an exclusive license were not a per se violation of section 1 of the Sherman Act. The District Court utilized rule of reason analysis to review the conduct and considered that the arrangement facilitated the efficient protection and quality control of MLB intellectual property, consistent with similar license agreements that had been approved in other industries.⁵⁵ That is, on balance the restraint of trade actually improved consumer welfare and was therefore not a breach of section 1.

The Second Circuit supported the District Court's rule of reason standard of review, and also affirmed the court's finding of no breach. In particular, this article supports the concurring opinion of Circuit Judge Sotomayer, which classified the operations of the league and its teams as a joint venture, and found that as the commercial arrangement was an ancillary rather than a naked restraint on trade, the rule of reason analysis was the appropriate standard of review.⁵⁶

MSG vs. NHL

MSG's current antitrust suit against the NHL has again the issue of applicability of the single entity defense to professional sporting leagues.

Until 2007, each NHL member club maintained its own team Web site on the Internet, albeit the clubs had agreed to subject these Web sites to some agreed format, advertising, sponsorship, merchandising, and other content restrictions imposed by the NHL.⁵⁷

In 2006, a committee convened by the NHL's commissioner, which included representatives of the teams, recommended that each team Web site be migrated to a common technology platform and Web site format to be managed by the league (New Media Strategy). The New Media Strategy included provisions that the NHL would retain up to 35 percent of each club's Web site for national advertising and other league content.⁵⁸

A majority of NHL clubs voted to adopt and implement the league's New Media Strategy. MSG, the owner and operator of the New York Rangers professional ice hockey team, did not.

Instead, MSG filed a claim alleging that the New Media Strategy constituted an antitrust violation in breach of section 1 of the Sherman Act. MSG also claimed that the NHL imposed other illegal regulations restraining the sale of advertising in arenas and in committing to exclusive licensing arrangements with preferred suppliers.

MSG argues that section 1 review should apply, as there has not been a complete integration of the member clubs of the NHL, with each existing as separate businesses with separate owners, resulting in each retaining significant degrees of autonomy, particularly with regard to the operation of independent Web sites to communicate

to fans.⁵⁹ MSG alleges that the NHL's New Media Strategy imposes controls that are "not reasonably necessary to the functioning of the legitimate joint venture or for any other procompetitive purpose."⁶⁰ Not surprisingly, the NHL contends that it and its member teams should be considered a single economic entity that is not subject to the scope of section 1.

Consistent with earlier commentary, this article asserts that the NHL should not be treated as a single entity, based on a narrow reading of *Copperweld*, and that the dispute should be determined through the use of rule of reason analysis. Such treatment would also be consistent with precedents established within the Second Circuit through the *NASL* and *Salvino* determinations. However, if MSG is to succeed based on a rule of reason analysis, it will need to provide greater evidence than it has submitted so far in preliminary proceedings.

Because the judicial resolution of this dispute had the potential to take some years to resolve, at the time of lodging its claim against the NHL, MSG also moved for a preliminary injunction against the NHL's effort to ban the Rangers from operating an independent Web site while the overarching proceedings were being determined. The U.S. District Court, Southern District of New York, denied the request, holding that MSG had failed to demonstrate a likelihood of success.⁶¹

MSG appealed to the Second Circuit, which found that the District Court had correctly determined that MSG failed to establish a likelihood of success under quick look analysis, stating that "[i]t is far from obvious that [the NHL's ban on independent websites] has no redeeming value."⁶² It also held that the District Court correctly cited "several procompetitive effects of the New Media Strategy"⁶³ which precluded the application of quick look analysis. Furthermore, the Second Circuit found that:

MSG did not show that the NHL's website ban has had an actual adverse effect on competition in the relevant market. Nor did MSG demonstrate that the many procompetitive benefits of the NHL's restriction could be achieved through an alternative means that is less restrictive of competition.⁶⁴

While the Second Circuit noted that there were certainly substantive issues for the District Court to address on the merits,⁶⁵ it affirmed the court's refusal of the preliminary injunction.

In October 2008, the District Court dismissed the claims relating to licensing, advertising and broadcasting on the basis of release provided by MSG that was contained in an earlier consent agreement between the parties.⁶⁶ However, Judge Preska held that the agreement did not cover the New Media Strategy operations, so the

claim of alleged breach of section 1 of the Sherman Act remains on foot.

In the court's decision, Judge Preska noted that a recent Court of Appeals case had rejected essentially the same "single entity defense" argument (with reference to *NASL*) and that "[m]ost other Courts that have taken up the issue have reached the same conclusion . . ."⁶⁷ (with reference to *L.A. Coliseum*, *Fraser v. Major League Soccer*, *Sullivan*, *St Louis Convention & Visitors Comm'n v. Nat'l Football League*, and *Smith v. Pro-Football, Inc.*). However, the court also noted that there were contrary authorities, including *Bulls IV* and *American Needle*.

The Court declined to resolve the question of applicability of section 1 at that time, as Judge Preska considered that "the arguments advanced by the NHL in favor of single-entity status require examining facts outside the pleadings."

As a result, the success or failure of the re-introduction of the single-entity defense in the Second Circuit is yet to be determined. The matter is still proceeding through the District Court, with preliminary timetables indicating that discovery is to be completed by May.

Conclusion

While the technological landscape and the particular manner in which sporting leagues and teams conduct business and generate revenues may have changed since *Copperweld*, the law itself has not.

The Supreme Court in *Copperweld* clearly indicated that the extension of the single-entity defense was to apply only to a narrow factual scenario of entities that have a complete unity of interests, most clearly demonstrated by a parent company and its wholly owned subsidiaries.

It is not disputed that the league and teams must band together to product a joint product. However, teams still compete on a number of different economic fronts, such as ticket sales, and advertising for stadiums and team Web sites. The development of the Internet and the promotion by teams through their own Web sites clearly demonstrates a further field in which teams seek to promote and differentiate themselves from others within the same league, thus competing for the affection of fans and further advertising and merchandising dollars.

As a result, the correct legal review of such a relationship is akin to that of a joint venture between independent entities, where conduct is subject to scrutiny under section 1 of the Sherman Act. In the event that the actions of a league and its teams are considered to have procompetitive effects which cannot be achieved through less restrictive means, they will be able to continue their behavior.

However, to provide an analogy using NFL parlance, the starting point for antitrust analysis should be at the 50-yard line through rule of reason analysis to protect consumer welfare, not at first-and-goal, or even in the end zone, due to immunity from the application of section 1 of the Sherman Act.

Endnotes

1. 15 U.S.C. § 1.
2. *Copperweld Corp. v. Independence Tube Corp.*, 467 U.S. 752 (1984).
3. No. 07-4006 (7th Cir. Aug. 18, 2008).
4. 2008 WL 4181298 (C.A.2 (N.Y.)) ("*Salvino*").
5. 15 U.S.C. §§ 1 *et seq.*
6. Matthew Mitten, Timothy Davis, Rodney Smith, and Robert Berry, *Sports Law and Regulation: Cases, Materials and Problems* (2005) at 239.
7. *Sullivan v. NFL*, 34 F.3d 1091 (1st Cir. 1994) ("*Sullivan*") at 1097, citing *Town of Concord v. Boston Edison Co.*, 915 F.2d 17 (1st Cir. 1990) at 22.
8. *Sullivan* at 1097, citing *National Collegiate Athletic Ass'n v. Board of Regents of Univ. of Okla.*, 468 U.S. 85, at 104-07 (1984).
9. *Id.* stating *see generally Northern Pacific R. Co. v. United States*, 356 U.S. 1, 356 U.S. 5 (1958).
10. 670 F.2d 1249 (2d Cir. 1981), *cert. denied*, 459 U.S. 1074 (1982).
11. *Id.*
12. *L.A. Coliseum* at [26] citing *NASL* at 1257.
13. *NASL* at 1249.
14. 726 F.2d 1381 (9th Cir. 1984) ("*L.A. Coliseum*").
15. 720 F.2d 772, 786-87 (3d Cir.1983), *cert. denied*, 467 U.S. 1215, 104 S.Ct. 2657, 81 L.Ed.2d 364 (1984), albeit the case was determined without the need for the Court to decisively rule on that particular issue.
16. 420 F. Supp. 738 (D.D.C. 1976) (football player draft), *aff'd in part & rev'd in part*, 593 F.2d 1173 (D.C. Cir. 1978).
17. *L.A. Coliseum* at [25].
18. *Id.* citing *Associated Press v. United States*, 326 U.S. 1, 65 S.Ct. 1416, 89 L.Ed. 2013 (1945), where the Supreme Court rejected the assertion that the AP was immune from section 1 because it was a necessary cooperative of independent newspapers which produced a product its individual members could not. *Id.* at 26, 65 S.Ct. at 1427, 89 L.Ed. at 2034 (Frankfurter, J., concurring). More recently, the Court found the cooperation required among ostensible competitors in arranging blanket licensing of copyrighted songs precluded only a finding of per se illegality; instead, rule of reason analysis was the proper method to determine the legality of the arrangement. *Broadcast Music, Inc. v. Columbia Broadcast System, Inc.*, 441 U.S. 1, 99 S.Ct. 1551, 60 L.Ed.2d 1 (1979).
19. *Copperweld* at 771.
20. *Id.*
21. *Id.*
22. 154 F.3d 851 (8th Cir. 1998).
23. 34 F.3d 1091 (1st Cir. 1994).
24. *Id.*
25. 284 F.3d 47 (1st Cir. 2002).

26. Rather than each team being separately owned, the MLS was organized as a single limited liability company with an “investor-owner” from each club acting as a representative on a MLS management committee that oversaw the business and affairs of MLS. The players signed contracts with the league and were then allocated to the various teams.
27. *Id.* at [28], citing *Copperweld* at 771.
28. *Id.*
29. *Id.* at [36].
30. 95 F.3d 593 (7th Cir. 1996).
31. *Id.*
32. 518 U.S. 231 (“*Brown*”).
33. *Id.*
34. *Id.* at 248, citing *National Collegiate Athletic Assn. v. Board of Regents of Univ. of Okla.*, 468 U. S. 85, 101–102 (1984); App. 110–115 (declaration of NFL Commissioner).
35. 547 U.S. 1 (“*Dagher*”).
36. *Id.* at 4.
37. 441 U.S. 1 at 23.
38. *Dagher* at 6.
39. *Brown* at 248.
40. Thomas A. Piraino, Jr, *A Proposal for Antitrust Regulation of Professional Sports*, 79 B. U. L. Rev. 889 (1999) (“*Piraino*”) at 893, citing *United States v. NFL*, 116 F. Supp. 323–6.
41. *Bulls IV* at [42].
42. *Piraino* at 920.
43. *Id.*
44. *Id.* at 921, citing Joseph F. Brodley, *Joint Ventures and Antitrust Policy*, 95 Harv. L. Rev. 1523 at 1525 (1982).
45. *Id.* at 922, e.g., a joint venture between General Motors and Toyota to manufacture motor vehicles at a plant in California, while remaining aggressive international competitors for other vehicles.
46. *Chicago Prof'l Sports Limited Partnership v. NBA* 874, F. Supp. 844, 849 (N.D. Ill. 1995).
47. *Copperweld* at 2736.
48. Daniel E. Lazaroff, *The Antitrust Implications of Franchise Relocation Restrictions in Professional Sports*, 53 Fordham L. Rev. 157 (1988) (“*Lazaroff*”), citing *Copperweld* at 2740.
49. *Copperweld* at 2740.
50. *Copperweld* at 2741.
51. *American Needle, Inc., v. New Orleans Louisiana Saints, et al.*, 496 F.Supp.2d 941 (“*American Needle*”) at 944, with reference to *Dagher*, 547 U.S. 1, 126 S.Ct. 1276, 164 L.Ed.2d 1 (2006).
52. *Id.*
53. *Id.* at 16.
54. *MLB Properties, Inc. v. Salvino, Inc.*, 420 F. Supp. 2d 212 (S.D.N.Y. 2005).
55. *Id.* at [12] with reference to the music industry, e.g., *Broadcast Music, Inc. v. CBS*, 441 U.S. 1, 99 S.Ct. 1551, 60 L.Ed.2d 1 (1978).
56. *Salvino* at [47].
57. *Madison Square Garden, L.P. v. National Hockey League*, S.D.N.Y. Preska, J. 07 CV 8455 (LAP) (affirmation by Second Circuit of dismissal of preliminary injunction) at 2.
58. *Id.*
59. *Id.* at [35–6].
60. *Id.* at [6].
61. *Madison Square Garden, L.P. v. National Hockey League*, No. 07-4927-cv Summary Order, 2007 WL 3254421 (S.D. N.Y. 2007) Nov. 2, 2007.
62. *Id.* at 16.
63. *Id.* at 3.
64. *Id.*
65. For example, whether section 1 should apply to the NHL as a sports league, and if so, what elements the relevant market should comprise.
66. Broadly speaking, under the consent agreement MSG released the NHL from any claims relating to NHL activities, including the performance, presentation or exploitation of any hockey game which existed at the time of execution.
67. *Madison Square Garden, L.P. v. National Hockey League*, No. 07-CV-8455 at 31 available at <http://www1.nysd.uscourts.gov/cases/show.php?db=special&id=87>.

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Taking a Mulligan: Moral Rights and the Art of Golf Course Design

By Ryan C. Steinman

I believe in reverencing anything in the life of man which has the testimony of the ages as being unexcelled, whether it be literature, paintings, poetry, tombs—even a golf hole.

—C.B. Macdonald¹

Recent surveys and research suggest that people in widely different places and cultures have a common vision of what makes a beautiful landscape.² The ideal is a vista from high ground overlooking rolling grassland with scattered trees and a body of water, much like 18th Century English landscape art, or perhaps even more precise—the view from a golf tee.³ In fact, it is the golf course architect more than any other artist who is able to bring to life this primeval notion of an earthly paradise.⁴ In recent years, the publication of hundreds of coffee-table books and calendars, as well as televised professional golf tours, have begun to showcase the incredible artistry and creativity involved in designing a golf course. Now that magazine rankings and golf clubs prominently tout their architects as an indication of innovative superior course design, the name or endorsement behind a golf course has taken on considerable significance, either enhancing or reducing the value of a particular course.⁵

"[I]t is the golf course architect more than any other artist who is able to bring to life this primeval notion of an earthly paradise."

Despite recognition within architecture and art worlds as innovative creative work, current American intellectually property laws offer weak protection to the golf course architect.⁶ Unlike traditional artists or architects whose works are protected by the Copyright Act, a completed golf course is free to be replicated without the authorization of the designer.⁷ While some have argued that the Copyright Act should simply be modified to extend protection to course designers, the real issue in protecting golf course design has more to do with promotion of the work to the public as a copy, rather than whether a particular copying has occurred.⁸ This is because a potential developer would not undertake the considerable time and substantial expense in replicating the design of an esteemed golf course architect without the intention of promoting the hole as a replica. Accordingly, this article argues that from a practical standpoint, golf course designers are able to obtain protection for their work under classic Continental moral rights—as the entire business value of an endorsed golf course design comes from controlling the moral right of attribution.⁹

From Utility to Artistry: A Brief History of Golf Course Design

There was a time when the only designer for the sport of golf was Mother Nature herself.¹⁰ There were no innovative design plans, no engineering, and certainly no such profession as the golf course architect. In fact, the first authentic golf course, the Old Course at St. Andrews, was formed not by man at all, but by grazing sheep that clipped the grass and hollowed out bunkers to provide shelter against the wind.¹¹ The first golf course architects used existing topography, simply marking out natural green and tee locations using the existing landscape features as hazards.¹² It was not until 1848 when greenskeeper Allan Robertson began to make any sort of significant change to the Old Course at St. Andrews.¹³ By reducing the number of holes from 22 to 18, widening the fairways, and creating smoother putting surfaces, Robertson began to lay the foundation for what would become the practice of golf course architecture.¹⁴

At the turn of the 19th Century, golf course architects began to manufacture the terrain in order to build courses that were somewhat more strategically and aesthetically pleasing.¹⁵ Unlike their predecessors who embraced the charm of the existing land, a new wave of golf course architects sought to influence the land on which they were asked to design, leaving behind their distinct handprints on the landscape.¹⁶ This marked the beginning of altering the natural topography to where the land was adapted to the game—and no longer the other way around.¹⁷ These designers considered themselves innovators and refused to incorporate unique elements, such as roads or fences, and instead sought to place hazards where they saw fit, often stripping the natural and unpredictable sporting elements out of the game for sheer geometric design.¹⁸

Eventually, however, golfers grew tired of the crude geometric style of golf courses that left the land with a rather artificial appearance.¹⁹ Architects responded by altering their design objectives to present options for the player to debate, rewarding the more daring play carried out with skill.²⁰ Aided by rapid economic expansion, some golf historians consider this perhaps the most creative and innovative period in American golf course architecture.²¹ The emphasis returned to more natural-looking designs that would provoke deliberation and thought.²² Architects of this "strategic style" of golf course

design employed large bunkers and created man-made lakes, something that had rarely been done before in golf course architecture.²³ Further, bulldozers enabled them to take barren agricultural land and even rocky terrain that was once unsuitable for a golf course and transform them into vast open green spaces.²⁴

Contemporary golf course architecture has taken more of a landscape-architecture approach where prettiness and framing have become the priorities.²⁵ Designs have been influenced heavily by rankings in magazines, brand names, and who can build the most expensive and lavish course.²⁶ The increase in the number of televised events has also led to more design features that are driven less by any functional considerations and more for just adding sheer color and beauty to golf.²⁷ Today's architects strive to create visually striking elements, such as large scenic man-made lakes with contrasting white sand, that will translate well into television and color print.²⁸ Unlike their predecessors whose designs were meant to test the mental strategy of a golfer's game, some believe today's courses are designed merely to serve as beautiful settings in which golfers can launch shots high into the air only to land on soft, green turf.²⁹ Thus, it appears that the goal is more about building a course with 18 holes that can each be the subject of a spectacular photograph and less about a strategic design that facilitates the sport of golf.³⁰

The Weak Protection Afforded by Current U.S. Intellectual Property Law

Despite this contemporary notion of golf course design as art, under current U.S. intellectual property regimes, golf course architects are unable to seek protection for such innovative design.³¹ While the Copyright Act purports to protect "original works of authorship fixed in any tangible medium of expression," in order to qualify for protection the design aspects must not be characterized as utilitarian or useful, and must otherwise be separable from the larger work.³² The Copyright Act defines "useful articles" as "having an intrinsic utilitarian function that is not merely to portray the appearance of the article or to convey information."³³ As the primary reason for a golf course's existence is to be used for its utilitarian function as a playing surface, it is too difficult to separate the aspects of the course that were intended by the designer to be part of the strategic game design from those intended merely to enhance the aesthetics of the playing field.³⁴ Thus, golf course architecture is subject to the limitations imposed by the useful article doctrine.

Golf courses are also unprotectable as "architectural works" under the Architectural Works Copyright Protection Act (AWCPA).³⁵ "Architectural works" are defined as "the design of a building as embodied in any tangible medium of expression."³⁶ The statutory reference to "building" includes non-habitable structures, such as gazebos and garden pavilions, but protection for other

three dimensional structures—such as creative works of landscape architecture—were deleted from the bill as enacted in order to forestall protection for highways, bridges and other elements of the transportation system.³⁷ As a result, unless a court were to contort the definition of "building" beyond its generally accepted limits, golf courses and other three-dimensional structures that defy easy classification are not protected under the subject matter category for architectural works.³⁸ Golf course architects can, however, receive protection for the architectural plans and models they design for a golf course.³⁹ Unfortunately, however, retaining a copyright in the plans and models provides little practical protection for a golf course architect, as technologically savvy copiers do not need these plans in order to make a replica. For instance, in *Pebble Beach Co. v. Tour 18*, a defendant copied the designs and layouts of each golf hole using videotapes, public maps, and overhead photographs.⁴⁰ With the help of an engineering firm, the defendants were able to construct three-dimensional maps of the terrain without using the copyrighted architectural plans or models.⁴¹

Trade-dress doctrine also fails to provide any significant protection for golf course designers.⁴² In *Pebble Beach Co.*, the owners of three of the original golf courses that were copied by Tour 18 brought suit under a variety of trade and unfair competition violations, including trade-dress infringement.⁴³ There, the court employed a two-part analysis considering whether each hole was (1) functional and (2) inherently distinctive or had achieved secondary meaning.⁴⁴ When considering functionality, the court noted that the limitation of protection to non-functional trade-dress served the purpose of assuring that competition would not be stifled by the exhaustion of a limited number of trade-dresses.⁴⁵ Thus, the court concluded that since there were essentially an unlimited number of designs for a golf hole, the designs were not functional and had thus satisfied the first element of the trade-dress test.⁴⁶

However, when considering the distinctiveness requirement, the court looked at whether the designs were "inherently distinctive" or whether the plaintiff could prove distinctiveness through a finding of "secondary meaning."⁴⁷ The court found that two of the holes failed this prong because they were not arbitrary and distinctive as compared to other golf holes such that the designs automatically serve as identifiers of source.⁴⁸ Nor did the holes achieve secondary meaning because there was no evidence showing customers connected the trade-dress to only one source or were confused.⁴⁹ However, one hole did succeed in showing inherent distinctiveness because the hole contained arbitrary source-identifying features—namely, a recognizable lighthouse that served as a "strong, distinctive, identifier of source."⁵⁰ Yet ultimately, the court concluded that there was no confusion between the replica and the original, because golfers actually believed that Tour 18 had obtained permission from

the plaintiff to copy the lighthouse and the hole design.⁵¹ Therefore, the court granted an injunction that restricted Tour 18 from using the lighthouse but allowed the hole itself to remain.⁵²

As a practical matter, this case illustrates that golf course designers will almost never satisfy the distinctiveness or secondary meaning requirements in order to use trade-dress to protect their designs. Very few holes are instantly recognizable as from a particular course or a particular designer, especially when removed from the surrounding context of the original course.

Classic Continental Moral Rights and the Lanham Act

The rights known as *le droit moral*, or moral rights, ensure an ongoing relationship between the author and the creative work outside of the economic issues at stake.⁵³ Two of these moral rights, the rights of attribution and integrity, are the core moral rights recognized in Article 6bis of the Berne Convention.⁵⁴ The right of attribution guarantees that the author's form of identification remains and conversely includes a right against misattribution.⁵⁵ The right of integrity allows the artist to object to distortions or changes in the work that might damage the artist's reputation.⁵⁶ While the United States acceded to the Berne Convention in 1988, it did not include a provision providing the two 6bis moral rights.⁵⁷ Instead, Congress stated that existing state and federal law, such as Section 43(a) of the Lanham Act and unfair competition laws, satisfied the same kind of protection envisioned by Article 6bis.⁵⁸

The Visual Artists Rights Act of 1990 (VARA), which extends the rights of integrity and attribution to unique works of fine art, represents the only express recognition of moral rights in the U.S. code.⁵⁹ However, protection under VARA is narrowly limited to works of visual art, which golf course design would fail to satisfy unless one was to sympathetically consider the golf course a "sculpture." Even then, it nonetheless does not count as a "work of visual art" if it is not otherwise eligible for copyright protection—which, as discussed above, it is not.⁶⁰ Furthermore, courts have concluded that VARA does not apply to site-specific art—which a golf course undoubtedly is—due to concerns of dramatically affecting real property interests.⁶¹

The enactment of VARA, however, does not mean that Congress foreclosed all moral rights protections for expression that fails to satisfy the narrowly defined category. Another vehicle affording protection of moral rights for those works that fall outside of "fine art" can be found in Section 43(a) of the Lanham Act, which creates liability for those who use a false designation of origin, or any false description or representation in connection with any goods or services, which is likely to cause confusion.⁶² This is illustrated in the Second Circuit decision in

*Gilliam v. American Broadcasting Companies, Inc.*⁶³ There, the ABC television network had heavily edited several episodes of the British program "Monty Python's Flying Circus," cutting out roughly 27 percent of the original content.⁶⁴ The members of Monty Python filed suit, seeking an injunction preventing ABC from airing the edited episodes because, *inter alia*, it mutilated the original work and therefore violated Section 43(a).⁶⁵

The Second Circuit interpreted the false association prong of Section 43(a) as follows:

[C]ourts have long granted relief for misrepresentation of an artist's work . . . [and] properly vindicate the author's personal right to prevent the presentation of his work to the public in a distorted form. . . . 'To deform his work is to present him to the public as the creator of a work not his own, and thus makes him subject to criticism for work he has not done.' In such a case, it is the writer or performer . . . that suffers the consequences of the mutilation, for the public will have only the final product by which to evaluate the work . . . [A]n allegation that a defendant has presented to the public a . . . distorted version of plaintiff's work seeks to redress the very rights sought to be protected by the Lanham Act and should be recognized as stating a cause of action under that statute.⁶⁶

Thus, the Second Circuit recognized that Monty Python could prevail on a Section 43(a) cause of action based on a misattribution claim.⁶⁷ The Court further noted that ABC's attributing the 90-minute show to Monty Python was a "representation [that] . . . although technically true, creates a false impression of the product's origin," and "impaired the integrity" of the plaintiff's work by presenting to the public "a mere caricature of their talents."⁶⁸

The Ninth Circuit further expanded the reach of Section 43(a) to encompass the right of attribution.⁶⁹ In *Smith v. Montoro*, an actor sued the U.S. distributor of a movie he appeared in for replacing his name in the credits and advertising materials with the name of another actor.⁷⁰ His Section 43(a) claim was that the distributor violated the prohibition against "false designation[s] of origin" by engaging in "reverse passing off," which occurs when a person removes or obliterates the original trademark before re-selling goods produced by someone else.⁷¹ The Court found that in these situations, the originator of the misidentified product is deprived of the advertising value of its name and the goodwill that would stem from public knowledge of the true source of the product.⁷² Further, the purchaser is also deprived of knowing the true source of the product and may even be deceived into believ-

ing that it comes from a different source.⁷³ Although the Court never explicitly referenced moral rights, the mere recognition of the Section 43(a) reverse passing off claim has opened the door for authors to assert their rights of attribution in the same way.⁷⁴

The Supreme Court, however, unquestionably changed the Lanham Act's coverage of moral rights within American law with its decision in *Dastar Corp. v. Twentieth Century Fox Film Corp.*⁷⁵ The case arose out of *Crusade in Europe*, a 1949 Twentieth Century Fox Film Corp. (Fox) television series based on Dwight D. Eisenhower's memoir, which entered the public domain in 1977 when Fox failed to renew its copyright.⁷⁶ In 1995, Dastar edited a copy of *Crusade in Europe*, adding a few original elements, and released a video set entitled *World War II Campaigns in Europe*.⁷⁷ Dastar claimed credit for the set in advertising, on the packaging, and onscreen, with no reference to Fox or the original television series.⁷⁸ Fox subsequently filed suit claiming, *inter alia*, that failing to credit the original series was in violation of Section 43(a) because it was a false or misleading designation of origin, which was likely to cause confusion as to the origin of the goods.⁷⁹

The unanimous decision by the Supreme Court framed the question very simply as whether "origin" in Section 43(a) meant the manufacturer of the physical goods or the creator of the underlying work.⁸⁰ The Court then determined that the most natural understanding of the word "origin" was the producer of the tangible product sold in the marketplace and not the author of any idea, concept, or communication embodied in those goods.⁸¹ The Court noted:

The problem with this argument according special treatment to communicative products is that it causes the Lanham Act to conflict with the law of copyright, which addresses that subject specifically. [I]n constructing the Lanham Act, we have been careful to caution against misuse or over-extension of trademark and related protections into areas traditionally occupied by patent or copyright . . . [F]or the sake of argument that Dastar's representation of itself as the "Producer" of its videos amounted to a representation that it originated the creative work conveyed by the videos, allowing a cause of action under § 43(a) for that representation would create a species of mutant copyright law that limits the public's federal right to copy and use expired copyrights.⁸²

As a result, the Court explicitly limited the Lanham Act's protections and called into question whether the right of integrity is still protected under Section 43(a).⁸³ This

decision has been criticized for the overly broad rule it created and for its failure to consider Section 43(a)'s role in ensuring U.S. compliance with the Berne Convention.⁸⁴

Application to the Art of Golf Course Design

As golf course architecture is uniquely suited to local terrain and surroundings, the ability to copy plans for multiple courses is usually not of major economic significance in the industry of golf course design.⁸⁵ In fact, no golf course operator would ever want to commission an exact copy of a golf course over an original design suited for a specific location unless the actual purpose was to use the name of the designer.⁸⁶ This is because a potential developer would not undertake the considerable time and expense in replicating the design of an esteemed golf course architect if he did not intend to promote the hole as a replica. Nor would the average golfer be likely to recognize a copy without a strong cue.⁸⁷ Thus, as a practical matter, golf course architects would likely only confront a situation involving misattribution or mutilation and not the situation where a designer wished to add his name to a work. This difference is paramount because as *Gilliam* and *Dastar* illustrate, an artist wishing to remove his name from a work due to misattribution or mutilation—as in *Gilliam*—has a better chance of success than an artist wishing to add his name to a work—as in *Dastar*.

However, even the bad facts of the *Dastar* case were significantly distinguishable from the unlikely situation where a golf course designer wished to add his name to a copycat course. To begin with, the *Dastar* case involved a situation where a work had entered into the public domain by a copyright owner who failed to renew a lapsed copyright registration.⁸⁸ This appeared to play a large role in the Court's decision, and at the very least made Fox a less-than-sympathetic plaintiff. Once in the public domain, the plaintiff's interests were at their weakest because, even under the Berne Convention, moral rights no longer applied.⁸⁹ In contrast, golf course architecture is unable to seek protection under the Copyright Act because it starts off in the public domain. Thus, the grave concerns the Court in *Dastar* expressed about Section 43(a) overlapping with the protections of the Copyright Act are not at issue with respect to golf course design.⁹⁰ Similarly, the Court expressed concern because "recognizing in Section 43(a) a cause of action for misrepresentation of authorship of non-copyrighted works would render these limitations [in VARA] superfluous."⁹¹ Yet as discussed above, VARA provides limited rights for a narrowly defined class of visual art in which golf course design is excluded. Again, any concerns of rendering another statute superfluous are not present when applied to golf course architecture. Finally, the plaintiff in *Dastar* was not even the author of the work—but was rather assigned the copyright. As moral rights are not assignable with the transfer of copyright, Fox never had any moral rights in the work.⁹² This, again, would not be the case with

respect to golf course design, because the architect is quite clearly the author of the work.

In the alternative, many of the major treatises suggest that the false advertising prong of Section 43(a) remains unaffected by *Dastar*.⁹³ Courts have not faced this question because authors making claims under Section 43(a) have solely relied on the false association prong to protect their rights of attribution and integrity.⁹⁴ However, this theory appears to be particularly appropriate in the context of using a famous golf course designer's name as an endorsement promoting a replica or homage course.⁹⁵ This is because misattribution of authorship can be actionably false under the false advertising prong not only if it is a false representation of fact, but also if it is a misleading representation of fact which misrepresents the "nature, characteristics, or qualities" of the goods.⁹⁶ As the unique characteristics and qualities of a famous golf course are inherently site specific, using the name of the designer on a copycat course in another location—even if a respectable copy—by its very nature misrepresents the nature and quality of the good.⁹⁷ After all, a copy of a Pebble Beach hole without the Pacific Ocean and surrounding cypress trees is clearly an inaccurate representation of the original work of the architect whose design incorporated these site-specific features into the design.⁹⁸ Inaccurate credit attributed to a designer in this way could impair the architect's ability to sell services and may significantly affect consumer purchasing decisions after experiencing a poorly designed copy of the work.⁹⁹ This kind of misattribution subjects a designer to criticism for work that he has not done and, as a result, should be actionable under the false advertising prong of Section 43(a).

Under this theory, in order to constitute infringement of a golf course architect's rights of attribution and integrity, a copycat or homage course must expressly use the name of the designer in promoting its course. For example, any hole or course that purports to feature the design of a famous golf course architect, or even one that claims to be inspired by a particular golf course architect, would constitute infringement. In these situations, the golf course architect has a right to prevent the presentation of his work to the public in a distorted form—namely, outside of the site-specific location for which it was designed. The entire value of creating a copy of a famous designer's work, and the entire harm from the designer's perspective, lies in the promotion of that work using the famous golf course designer's name. In contrast, the unlikely situation where a golf course operator commissioned an exact copy of the work of a famous golf course architect, but left the designer's name off of the work, would not infringe the golf course architect's rights of attribution and integrity. This is so even though an exact copy of the design has been made because, from a practical standpoint, it is unlikely that anyone would recognize it as a copy without a strong cue.

Conclusion

Golf course design and the profession of the golf course architect have dramatically changed over time. Initially, golf course design was driven predominantly by the utilitarian concerns of facilitating the sport of golf by using the existing land features as natural hazards. However, today—thanks to technology and machinery—the natural existing land serves merely as a blank canvas which innovative architects use to sculpt breathtaking masterpieces. The focus appears to be less about utility and more about lavish artistic grandeur and the creation of visually striking elements that will translate well into television and color print. Now that magazine rankings and golf clubs prominently tout a club's architect as an indication of innovative and superior course design, the name or endorsement behind a golf course has taken on considerable significance, either enhancing or reducing the value of a particular course. Thus, when a course claims to feature copies of the work of a famous designer, the architect's right of integrity and attribution are directly at stake. In the absence of traditional intellectual property protection, famous golf course architects must rely on classic moral rights as a way to control the reputation of the body of their work and to build a strong brand. Without such protection, shoddy copycat knockoffs that use the designers' names will inevitably cheapen the value of the architects' brands and impair the integrity of their works by presenting to the public "a mere caricature of their talents."

Endnotes

1. Geoff Shackelford, *Grounds for Golf: The History and Fundamentals of Golf Course Design* ix (St. Martin's Press 2003) [hereinafter *Grounds for Golf*]. Golf historians consider Charles Blair Macdonald the "Father of American Golf Course Architecture." Geoffrey S. Cornish & Ronald E. Whitten, *The Architects of Golf: A Survey of Golf Design From Its Beginnings to the Present, With an Encyclopedia Listing of Golf Course Architects and Their Courses* 4 (HarperCollins 1981) (1993). In golf, a "mulligan" is a retaken swing, usually due to a previous errant one. Merriam-Webster Online Dictionary, <http://www.aolsvc.merriam-webster.aol.com/dictionary/mulligan>.
2. John Tierney, *The Golf Gene*, N.Y. Times, Aug. 20, 2005 at A13.
3. Steve Sailer, *From Bauhaus to Golf Course: The Rise, Fall, and Revival of the Art of Golf Course Architecture*, The American Conservative (April 11, 2005), available at http://www.isteve.com/golf_art.html.
4. *Id.*
5. E.g., Nicklaus Design, <http://www.nicklaus.com/design/overview.php> (stating that in addition to impacting membership fees and greens fees, communities that feature a Jack Nicklaus-designed golf course as an amenity have resulted in the highest real estate value, highest average home price, and the greatest velocity of home and lot sales).
6. Robert D. Howell, *Tee'd Off-Golf Course Designers Score Double Bogey in Search for Protection of Their Designs*, 5 J. Intell. Prop. L. 337 (1997) (stating "the courses' artistic nature is reflected in their beauty and design . . . classification as a form of 'art,' however, does little to advance a golf hole's chances of achieving copyrightability").
7. John S. Saroff, *Putting Intellectual Property Law on the Fairway: Toward an Expansion of Copyright Law to Golf Course Architecture*, 28 Colum. J.L. & Arts 379, 388 (2005).

8. *Id.* (arguing to expressly include golf course design in the Copyright Act's definition of "architectural work").
9. Moral rights are rights personal to authors that are viable separate and apart from the economic aspect of copyright. These include the right to prevent others from falsely attributing authorship and the right to prevent others from distorting the work in a way that would damage the author's reputation. Nimmer on Copyright 8D.01 (Matthew Bender & Company, Inc., 2008).
10. Louis T. Stanley, *A History of Golf 1* (George Weidenfeld & Nicolson Limited 1991).
11. Denys Lémery, *Golf Course Architect, Between Art and Industry*, European Institute of Golf Course Architects, available at <http://www.eigca.org/articles6.php>.
12. Ross McMurray, *St. Andrews and the Development of Strategic Golf Course Design*, European Institute of Golf Course Architects, available at <http://www.eigca.org/articles8.php>; Cornish & Whitten, *supra* note 1, at 15.
13. McMurray, *supra* note 12; Cornish & Whitten, *supra* note 1, at 15.
14. Cornish & Whitten, *supra* note 1, at 9.
15. McMurray, *supra* note 12.
16. Grounds for Golf, *supra* note 1, at 32.
17. Lémery, *supra* note 11.
18. *Id.*; Grounds for Golf, *supra* note 1, at 35.
19. *Id.*
20. *Id.* at 38.
21. Geoff Shackelford, *The Golden Age of Golf Design* 32-42 (Sleeping Bear Press 1999) [hereinafter *Golden Age of Golf Design*].
22. Grounds for Golf, *supra* note 1, at 38.
23. *Id.* at 41.
24. Lémery, *supra* note 11.
25. Grounds for Golf, *supra* note 1, at 43.
26. *Id.* at 55. Cornish & Whitten, *supra* note 1, at 162 (describing the attention Jack Nicklaus has achieved, in part, because of his reported million-dollar-per-course design fee).
27. *Id.*
28. *Id.*
29. *Golden Age of Golf Design*, *supra* note 21, at 3.
30. *See generally*, Geoff Shackelford, *The Future of Golf: How Golf Lost Its Way and How to Get It Back* (Sasquatch Books 2005) (providing extensive discussion on the excessive commercialization of the sport of golf).
31. Saroff, *supra* note 7, at 387-89.
32. Copyright Act of 1976, 17 U.S.C. § 102(a); *Baker v. Selden*, 101 U.S. 99, 105 (1879) (holding that if the purpose of the object is use, then patent is the appropriate regime).
33. 17 U.S.C. § 101. *See also* *Brandir Int'l, Inc. v. Cascade Pacific Lumber Co.*, 834 F.2d 1142 (2d Cir. 1987) (finding that although a sculpture that inspired a bicycle rack was copyrightable, the rack itself was not because it was influenced in significant measure by utilitarian concerns and any aesthetic elements could not be said to be conceptually separable from utilitarian elements).
34. Saroff, *supra* note 7, at 387.
35. Pub. L. No. 101-650, § 703, 104 Stat. 5133 (1990) (codified as amended at 17 U.S.C. § 102(a)(8) (2004)).
36. 17 U.S.C. § 101 (1990).
37. H.R. Rep. No. 101-735, 101st Cong., 2d Sess. 20 (1990).
38. Raphael Winick, *Copyright Protection for Architecture After the Architectural Works Copyright Protection Act of 1990*, 41 Duke L.J. 1598, 1613 (1992) (describing how golf courses, gardens, tunnels, bridges, fences, and walls are only a few of the structures designed by architects that would not fit the common definition of "building").
39. 17 U.S.C. § 101.
40. *Pebble Beach Co. v. Tour 18 I, Ltd.*, 942 F. Supp. 1513, 1533 (S.D. Tex. 1996), *aff'd*, 155 F.3d 526 (5th Cir. 1998).
41. *Id.*
42. *Id.* at 1554 (defining trade-dress as "the image and overall appearance of a product . . ." embodying "that arrangement of identifying characteristics or decorations connected to a product . . . intended to make the source of the product more distinguishable from another and to promote its sale"). *Id.*
43. *Id.* at 1532.
44. *Id.* at 1555.
45. *Pebble Beach* at 1554.
46. *Id.* at 1556.
47. *Id.* at 1555. The term "distinctive" is a term of art in trademark law. McCarthy, *infra* note 49, at 11:2. The general rule is that an identifying mark is distinctive and capable of being protected if it either is (1) inherently distinctive or (2) has acquired distinctiveness through secondary meaning. *Id.* Generic terms can never be trademarks, descriptive terms are not inherently distinctive, and suggestive, arbitrary or fanciful terms are regarded as being inherently distinctive. *Id.*
48. *Pebble Beach* at 1556.
49. *Id.* at 1559. Trade dress can achieve secondary meaning when the primary significance of the dress in the minds of consumers is not the product, but the source of the product. Qualitex at 163; 1 McCarthy on Trademarks and Unfair Competition 15:25 (4th ed. 2008).
50. *Pebble Beach* at 1556.
51. *Id.*
52. *Id.*
53. Nimmer, *supra* note 9, at 8D.01.
54. Berne Convention for the Protection of Literary and Artistic Works, art. 6bis, Sept. 9, 1886, as revised at Paris on July 24, 1971 and amended in 1979, S. Treaty Doc. No. 99-27 (1986), 1161 U.N.T.S. 20 [hereinafter *Berne Convention*].
55. Nimmer, note 9, at 8D.03.
56. *Id.* at 8D.04.
57. Berne Convention Implementation Act of 1988, Pub. L. No. 100-568, 102 Stat. 2853 (codified in various sections of 17 U.S.C.).
58. H.R. Rep. No. 100-609 at 34 (1988).
59. Visual Artists Rights Act of 1990, 17 U.S.C. § 101, 106A (2000).
60. 17 U.S.C. § 101 (definition of "work of visual art"). The purpose of this provision is to avoid conferring on works freely available in the copyright public domain any newly created artists' rights. H.R. Rep. No. 101-514, 101st Cong., 2d Sess. 14 (1990).
61. Nimmer, *supra* note 9, at 8D.06.
62. *Id.* Section 43(a) of the Lanham Act provides a cause of action when "any person who . . . uses in commerce any word . . . , or any false designation of origin, false or misleading description of fact, or false or misleading representation of fact, which (A) is likely to cause confusion . . . of such person with another person, or as to the origin, sponsorship, or approval . . . by another person." *Id.*
63. 538 F.2d 14 (2d Cir. 1976).
64. *Id.* at 19.
65. *Id.* at 24.
66. *Id.*
67. *Id.*
68. *Id.*

69. *Smith v. Montoro*, 648 F.2d 602 (9th Cir. 1981).
70. *Id.*
71. *Id.* at 605.
72. *Id.* at 606–607.
73. *Id.*
74. Nimmer, *supra* note 9, at 8D.03[A][2][a] (stating that the rationales underlying *Smith v. Montoro* apply equally to authors outside the motion picture context).
75. 539 U.S. 23 (2003).
76. *Id.* at 25–26. Public domain is defined as “creative works that are not protected by intellectual property rights and are therefore available for anyone to use without charge. [Works in the] public domain . . . can be appropriated by anyone without liability for infringement.” Black’s Law Dictionary (8th ed. 2004).
77. 539 U.S. 23, at 26–27.
78. *Id.*
79. *Id.* at 27.
80. *Id.* at 29–30.
81. *Id.* at 24.
82. *Id.* at 34.
83. *Id.*
84. See, e.g., Family Movie Act of 2004: Hearing on H.R. 4586 Before the Subcomm. on Courts, the Internet and Intellectual Property of the H.Comm. on the Judiciary, 108th Cong. 10 & n.2 (2003) (statement of Marybeth Peters, Register of Copyrights, U.S. Copyright Office) (stating that the “ill-considered [*Dastar*] decision . . . has weakened the protection for moral rights that our laws offer” and that “the subcommittee should examine whether Section 43(a) is an important means for protecting the moral rights of attribution and integrity”).
85. James Schnare, Esq., Senior Vice President and General Counsel of Nicklaus Companies, LLC, Address at New York Law School’s Institute for Information Law & Policy Symposium: *Intellectual Property from Tee to Green: Applying the Art of Law to the Business of Golf* (March 10, 2008).
86. *Id.*
87. *Id.*
88. 539 U.S. 23 at 25–26.
89. *Id.* at 33. (stating that the right to copy, and to copy without attribution, once a copyright has expired . . . passes to the public); Berne Convention (stating that an author’s rights of attribution and integrity shall, after his death, be maintained, at least until the expiry of the economic rights).
90. *Id.*
91. *Id.* at 31.
92. Nimmer, *supra* note 9, at 8D.06[D] (stating that moral rights can be waived but are not subject to transfer).
93. Goldstein on Copyright, 17.14.3 (2005) (stating that because the Court’s opinion addressed only Section 43(a)(1)(A), it left open the possibility for relief under 43(a)(1)(B); McCarthy *supra* note 49, at 27:77.1 (stating that well-known cases such as the Monty Python decision and the false actor’s credit case of *Smith v. Montoro* will be in violation of the Section 43(a) only if they fit within the criteria of the “false advertising” prong of Section 43(a)(1)(B). The false advertising prong of Section 43(a) states “any person who . . . uses in commerce any . . . name . . . which . . . (B) in commercial advertising or promotion, misrepresents the nature, characteristics, qualities, or geographic origin of his or her or another person’s goods, services, or commercial activities shall be liable in a civil action . . .” 15 U.S.C. § 1125(a)(1)(B).
94. Clinton A. Carpenter, *Stepmother, May I?: Moral Rights, Dastar, and the False Advertising Prong of the Lanham Act Section 43(a)*, 63 Wash. & Lee L. Rev. 1601, 1631 (2006).
95. The plaintiffs in *Tour 18* did bring a false advertising claim under 43(a)(1)(B); however, it was not asserted under moral rights. There, the golf course operators alleged that the use of the word “copy” in advertisements to describe the holes misled consumers into believing the holes were exact copies, which they were not. 942 F.Supp. 1513, 1562 (S.D.Tex., 1996). In contrast, this article is suggesting action by the architects, asserting that the use of a designers name misrepresents the nature and quality of the goods, because golf course architects design courses to be site specific and therefore any copy inherently misrepresents the work of the designer.
96. McCarthy *supra* note 49, at 27:55 (describing the two alternative types of false advertising).
97. Nicklaus Design, *supra* note 5.
98. For example, evidence demonstrates that the placement and design of the Harbour Town Golf Links course was specifically constructed to create a relationship between the course and the existing lighthouse. *Pebble Beach*, 155 F.3d 526, at 542.
99. Carpenter makes an analogous argument with respect to the misattribution of a screenplay writer. Carpenter, *supra* note 94, at 1644 (stating that this kind of misattribution is material in that potential employers who chose not to hire a screenwriter to write their screenplays may have chosen differently had the screenwriter been accurately credited).

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**Upcoming EASL Journal Deadline:
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Losers by AKO

By Paul Stuart Haberman

As a New Commissioner of the New York State Athletic Commission Begins Her Tenure, the Question Is Begged as to Whether Two Former World Champions Who Were Placed on Administrative Suspension by Her Predecessor Could Have Done Anything to Reclaim Their Boxing Licenses

Throughout the 1990s, Evander Holyfield and Junior Jones were among the boxing elite. Holyfield, a 1984 Olympic bronze medallist, former undisputed cruiser-weight champion, and one-time undisputed heavyweight champion of the world, punched his way into boxing immortality through a series of exciting fights, including his epic trilogy with fellow heavyweight champion Riddick Bowe and his crushing knockout of Mike Tyson. Jones, a former two-time New York Golden Gloves champion as an amateur, rose to prominence with a hard-fought unanimous decision win over Jorge Eliecer Julio for the World Boxing Association bantamweight title, and sealed his place in boxing history with back-to-back victories over the previously undefeated Mexican legend-in-the-making Marco Antonio Barrera for a portion of the super-bantamweight crown. However, like many top boxers before them, both Holyfield and Jones took their share of losses against their younger peers as they got older and inched toward veteran status. Yet perhaps the most devastating blows they ever received came not from any of their opponents in the ring, but rather from the New York State Athletic Commission (the Commission) and its former Commissioner, Ron Scott Stevens. The punch thrown: an administrative suspension.

Holyfield was placed on administrative suspension in 2005 following a lopsided points loss to fringe heavyweight contender Larry Donald at Madison Square Garden. His loss convinced the Commission that his skills had eroded to such a degree that he should no longer be boxing in New York. Jones, who was planning a comeback, was given his suspension around the same time after the Commission decided he had “diminished skills,” despite not having fought in three years.¹ In an instant, Holyfield became a marginalized but still lucrative boxer, fighting both overseas and under the auspices of some of America’s weakest boxing commissions, while Jones was effectively retired by the athletic commission of the very state where he fought his way into amateur boxing greatness. Neither appealed his suspension. While many boxing *cognoscenti* felt that Holyfield and Jones were being saved from themselves by their respective suspensions, the laws governing the use of the administrative suspension beg the question: How would Holyfield and Jones have successfully contested their suspensions? Or, to put it another way, how could they have avoided being losers by administrative knockout?

The Definition of Administrative Suspension and Its Implications

Under Section 1812 of the Unconsolidated Laws of New York, the New York State Athletic Commission is given the power to exercise its discretion when issuing boxing licenses so that it may determine whether the “financial responsibility, experience, character, and general fitness of an applicant . . . are such that participation of such applicant will be consistent with the public interest, convenience or necessity of the safety of boxing and wrestling participants and with the best interests of boxing or wrestling generally[.]” In its exercise of this discretion, the Commission is empowered to issue both medical suspensions, which are based on objective medical findings of a fighter’s temporary or permanent unfitness to box, and administrative suspensions, which are subjective and based on any number of factors, including personal observations of members of the Commission and anecdotal evidence from people around boxing.

“[P]erhaps the most devastating blows [Holyfield and Jones] ever received came not from any of their opponents in the ring, but rather from the . . . Commission. . . . The punch thrown: an administrative suspension.”

The differences between the two types of suspensions are significant. Under a medical suspension, a professional boxer is not permitted to receive a license to box for a fixed or indefinite period of time in any member commission of the Association of Boxing Commissions, the organization that promotes uniformity in boxing throughout the United States, the Native American Tribal Nations, and Canada.² If a boxer is administratively suspended by an individual commission, however, another state, tribal nation, or provincial commission may use its discretion in determining whether or not to license a suspended boxer to fight. Notations regarding both types of suspension are made in a compendium put together by Fight Fax, Inc., the official record keeper of professional boxing. Each commission has access to the suspension information contained in Fight Fax, Inc.’s database and can base their

decisions on whether or not to issue licenses based upon the information within.

The Appeals Process for a New York State Athletic Commission Suspension

The Commission is mandated to deliver all bulletins and notices to its licensees to the licensee's registered address.³ Once a boxer is suspended by the Commission and receives notice of same at his registered address, he is entitled to submit a written request for a hearing "to determine whether such suspension should be rescinded" within 30 days after "the date of notice of suspension."⁴ At the hearing, "licensees and other witnesses shall testify under oath or affirmation, which may be administered by any commissioner or authorized representative of the commission actually present."⁵ The Commission is the "sole judge of the relevancy and competency of testimony and other evidence, the credibility of witnesses, and the sufficiency of the evidence"⁶ presented at the hearing. After the hearing, "the [C]ommission representatives conducting the hearing shall submit findings of fact and recommendations to the [C]ommission, which shall not be binding on the [C]ommission."⁷

In the case of administrative suspensions, the above-referenced procedure may seem absurd when its application is contemplated. That is because, in essence, the boxer must petition the Commission within a month of his administrative suspension to argue that he does not have, for example, "diminished skills" and that the Commission's subjective observations and conclusions are flawed. Further, the onus falls entirely on the boxer to disprove the basis of the administrative suspension and not at all on the Commission, which must simply furnish a rational basis for its decision to suspend the boxer,⁸ and does not need to assign any probative value to the evidence presented. In short, the boxer-petitioner is telling the same administrative body that just deemed him unfit to fight anymore that he is fit to continue fighting through the presentation of evidence that the Commission need not consider. Even if the appeals process sounds like an exercise in futility, however, an attempt to bypass the initial appeal can be fatal to a boxer's chance to get his suspension lifted. This will be discussed more below.

Taking the New York State Athletic Commission to Court

Under Article 78 of New York State's Civil Practice Law and Rules, an individual who is aggrieved by the action of an administrative agency may file a lawsuit against that agency to challenge the basis of its determination. Among the issues that may be raised in an Article 78 proceeding "is 'whether a determination was made in error of law or was arbitrary and capricious or an abuse of discretion[]'"⁹ or "lacking a rational basis[.]"¹⁰ An Article 78 proceeding "must be commenced within four months

after the administrative determination to be reviewed becomes 'final and binding upon the petitioner.'"¹¹ Only when the individual seeking review has been harmed by the administrative determination does it become "final and binding."¹² Necessarily then, when an agency creates the impression that a determination was intended to be non-conclusive, the statute of limitations does not start to run.¹³

Generally, an individual seeking to file an Article 78 proceeding must first exhaust all of his administrative remedies, meaning that if the government agency that suspended him had an in-house appeals process, the individual would first have to go through that appeals process before he could seek relief from the courts.¹⁴ A court may dismiss an Article 78 proceeding for not utilizing said appeals processes.¹⁵ An exception to the general rule arises if an aggrieved party can establish that it would have been futile to exhaust all of its administrative remedies prior to filing an Article 78 proceeding.¹⁶ This can be demonstrated by showing that the appeals process set up by a particular agency has an air of futility, either because those reviewing the appeal are the exact same people who issued the suspension in the first instance, that employees of the agency displayed an animus unique to the individual prior to his suspension, or otherwise.

The Commission is a New York State administrative agency and, as such, is subject to judicial review through an Article 78 proceeding. Prior to filing an Article 78 proceeding against the Commission, a boxer placed on administrative suspension must first go through the initial hearing detailed above. If a boxer were to bypass the hearing and simply file an Article 78 lawsuit, a court would be well within its discretion to dismiss the lawsuit for failure to exhaust his administrative remedies. That is, of course, unless he can demonstrate to the court that it would have been futile based upon the rationale provided by the Commission for his administrative suspension.

The Arguments Not Made on Behalf of Holyfield and Jones

What arguments could Evander Holyfield or Junior Jones have offered in support of a lawsuit against the Commission? While it would be difficult to show an "error of law" with regard to the Commission's administrative suspensions, given the wide latitude that it has in administering them, one argument that could have been made was that the suspensions were "arbitrary and capricious." With Holyfield and Jones, it appears that their early blessings, in terms of ability and talent, became their curses. An argument could be made that they were arbitrarily, and with caprice, held to a higher standard than the average opponent who is brought in to lose, a local ticket seller of limited capability to begin with, or a more lightly regarded world class contender or titleholder. Perhaps a statistical analysis could have been done of those

who were not suspended in New York despite a number of particularly brutal or telling losses over the latter portion of their careers. Indeed, Muhammad Ali had success in his lawsuit against the Commission by demonstrating that the basis provided for his denial of license—his criminal conviction for evading the draft—was arbitrary and capricious after he was able to show that there were scores of individuals with criminal convictions who were granted licenses by the Commission prior to the denial of his application.¹⁷ Similarly, Holyfield or Jones could have attempted to document the losses taken in the latter portion of the careers of other boxers that fought in New York around the same time that they were suspended. If a statistically remarkable amount of boxers showed an appreciable decline in their skill levels, but were granted licenses, perhaps a successful argument could have been made that the Commission acted in an arbitrary and capricious manner when it handed down its administrative suspensions.

Alternately, Holyfield and Jones also could have argued that their respective administrative suspensions lacked rational bases. Holyfield could have made the argument that he simply had a bad night against Larry Donald, himself a former Olympian and top 25 boxer at that time, and that the losses that he suffered prior to the Donald fight were to top-flight competition and not to the heavyweight division's rank and file.¹⁸ Jones, who had not fought in three years prior to his suspension, could have argued that his suspension lacked a rational basis, as it came about without as much as a single comeback fight to demonstrate what abilities he may have had left following his three-year hiatus from the ring.¹⁹

Each of the above arguments could have been rebutted by the Commission by virtue of the fact that it is bestowed with the ability, under Section 1812 of the Unconsolidated Laws of New York, to "exercise its discretion" in determining whether a boxer has the "general fitness" to be given a license. With regard to a claim that it acted arbitrarily and capriciously with regard to Holyfield, the Commission could have argued that Holyfield, in showing porous defense, minimal offense, and marked lethargy in his loss to Donald, appeared wholly unable to compete any longer on a world-class level in boxing and was a threat to his own well-being for as long as he continued to take on the caliber of boxer that he been facing for so many years. In short, the Commission could have stated that Holyfield no longer had the "general fitness" to continue boxing in New York State. Jones, the Commission could have argued, had lost to a boxer who was not on his level in his last match three years earlier, was only three years older at the time he was suspended, and generally appeared more vulnerable to a lesser caliber of boxers than had been the case earlier in his career. Thus, the Commission could have argued that Jones was also a threat to his own well-being and that he, too, did not have the "general fitness" to continue boxing in New York State.

The rational basis arguments could have been rebutted on substantially similar grounds as the arbitrary and capricious arguments. Briefly, the Commission could have argued that it rationally exercised its discretion in finding, through its subjective observations, that Holyfield and Jones did not demonstrate the "general fitness" to box in New York State anymore.²⁰ In support of its claims, the Commission could have submitted affidavits and sworn testimony on what its members, licensees, and other boxing insiders had observed with regard to each boxer in the months and years preceding their suspensions.

Even Winners Can Be Losers

Whether or not Holyfield and Jones could have succeeded in court on the merits of the above-proffered arguments, or others not advanced herein, a bigger nemesis faced each of them in the event that they lost their initial appeals to the Commission: time. Lawsuits, barring early resolutions, take an appreciable amount of time to make their way through the New York State court system. At the time of their suspensions, Holyfield was already 43 years old and Jones was 35. In boxing years, time was of the essence to each of their careers. Even if they had fought the decisions to administratively suspend them and won, they would have already lost additional months and years off of the tail end of their careers.

Conclusion

Whatever someone's personal opinion is of whether or not Evander Holyfield or Junior Jones should have been cleared to continue boxing by the Commission, their administrative suspensions raise some intriguing questions about the powerful sway that the Commission can have over a boxer's career. Taken to its logical extreme, if the Commission observes a single sparring session in which a formerly untouchable boxer takes an unusual beating, or someone overhears a single conversation during a night of boxing at the Roseland Ballroom where a once capable boxer sounds a little more garbled than he used to, the AKO can be scored against them with little chance of their winning a successful appeal of it. As Melvina Lathan, a long-time professional boxing judge, ventures deeper into her new position as the Chairwoman of the Commission after replacing Ron Scott Stevens, the man who was ultimately responsible for suspending Holyfield and Jones, one has to wonder if she too will be inclined to take such powerful measures to hasten the end of the careers of other professional boxers. If so, who will be next on the chopping block? Perhaps it will be another aging legend or two. Perhaps it will be a boxer that you manage or promote if he does not give Lathan and the Commission the right signals while fighting, sparring, or conversing in New York State's gyms and fight venues. The moral of the story: Even if a veteran boxer protects himself at all times in New York, the administrative suspension can split his guard and end his career in a flash.

Endnotes

1. New York Times Staff, *Holyfield Allowed to Fight, Just Not in New York State*, New York Times, Aug. 17, 2005.
2. For more information, see http://www.abcbboxing.com/abc_constitution.html.
3. 19 N.Y.C.R.R. § 206.18.
4. 19 N.Y.C.R.R. § 206.9.
5. 19 N.Y.C.R.R. § 206.16.
6. *Id.*
7. *Id.*
8. *Bonacorsa v. Barry*, 1979 U.S. Dist. LEXIS 15034 (S.D.N.Y. 1979) (“[t]he denial of a license to engage in a regulated activity may not represent mere whim, caprice or prejudice on the part of an agency. The decision must have some rational basis.”) (citing *Yick Wo v. Hopkins*, 118 U.S. 356 (1886); *Ali v. Division of State Athletic Commission*, 316 F. Supp. 1246, 1250 (S.D.N.Y. 1970)).
9. *Andrews v. City of New York*, 2004 U.S. Dist. LEXIS 30290, *41 (E.D.N.Y. 2004) (internal citations omitted).
10. *New York City Health & Hospitals Corp. v. McBarnette*, 84 N.Y.194, 205 (1994) (citing CPLR § 7803[3]).
11. *Yarbough v. Franco*, 95 N.Y.2d 342, 346 (2000) (internal citations omitted).
12. *Id.* (internal citations omitted). In the cases of Holyfield and Jones, it could be said that their administrative suspensions became “final and binding” when they applied for licenses in other jurisdictions and were denied them on the basis of the administrative suspensions handed down by the Commission.
13. *Edmead v. McGuire*, 67 N.Y.2d 716, 717 (1986) (internal citations omitted). In the event that the Commission made any representations to either Holyfield or Jones that it would take a wait-and-see approach to whether they would be licensed again

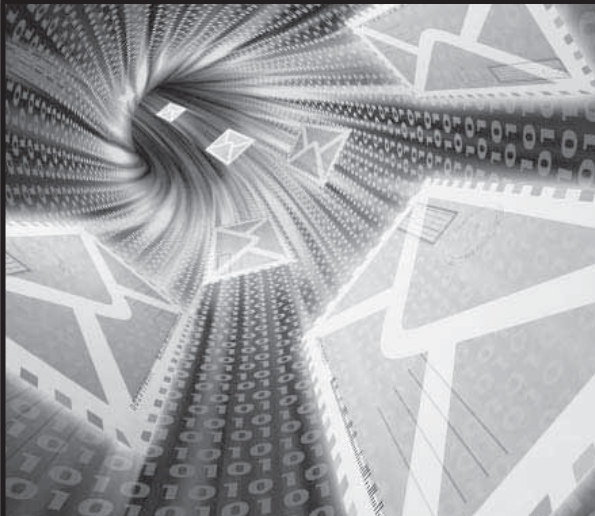
(i.e., wait and see how they look in subsequent boxing matches held in other jurisdictions), an argument could have been made that its determination was non-conclusive, and thus that the statute of limitations had not actually started to run after the suspensions were meted out.

14. See, e.g., *Handberry v. Thompson*, 436 F.3d 52 (2d Cir. 2006).
15. *Id.*
16. *Id.*
17. *Ali*, 315 F. Supp. at 1252. It should be noted that Ali’s case involved a denial, not a suspension, of his license.
18. Holyfield came into the Donald fight off of back-to-back losses to heavyweight contenders Chris Byrd and James Toney, each former world champions who were renowned for their hand speed and superior command of boxing fundamentals at that time.
19. Jones’ last fight prior to his administrative suspension was a decision loss to journeyman Ivan Alvarez on Dec. 16, 2002. At the time, it had been two years since his last loss, a knockout in a world title fight in New York City against Britain’s Paul Ingle.
20. A number of federal claims could have potentially been alleged as well, depending on the circumstances. This article is confined to available remedies under New York law.

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The First Amendment and the Issue of Nudity in Art

By Shima Ebrahimi

It has been said that beauty is in the eye of the beholder. In the case of art, however, it is not always just a question of beauty. The phrase could be accurately restated as “obscenity is in the eye of the beholder.”

There is something about art that affects people emotionally. It may be the very nature of art as a visual medium, it may be that the artist sets out to elicit an emotional response in the viewer, or it may be because of what the art is portraying, and where it is being shown.

“Artwork that portrays nudity is . . . an easy target for debate because of the highly subjective nature of its interpretation, and the line between obscenity and art has come into question time and time again.”

The depiction of the human nude has been a long-standing practice in the visual arts. The classic nude has been revered and studied for centuries, and the subject matter of the nude remains a popular choice for artists today. Artwork that portrays nudity is also an easy target for debate because of the highly subjective nature of its interpretation, and the line between obscenity and art has come into question time and time again. There is controversy regarding how to deal with the issue of nudity in art, and the law is not exactly clear on this matter. The U.S. States Supreme Court held that “non-verbal expression may sometimes be considered ‘speech,’ and as a result, symbols, works of visual and written art, and even physical acts may enjoy the protection of the First Amendment.”¹ Preventing the display of artwork violates the First Amendment. However, obscenity is of one of the five types of unprotected speech; thus the First Amendment does not protect obscene material. On the basis of obscenity, public and private organizations and individuals alike have successfully taken action to have offensive art removed from public settings.²

On the matter of nudity in art, one of the problems facing the courts is the difficulty in defining what obscenity is. In 1964, Supreme Court Justice Potter Stewart “struggled to come up with a coherent definition of obscenity, declaring, ‘I know it when I see it.’”³ The depiction of the human nude at any level of sexuality may be considered offensive by some, while to others it is considered a classical form of artistic expression, and since the 1950s the U.S. Supreme Court has changed its definition of obscenity numerous times.

Examining the evolution of today’s laws, the 1957 case of *Roth v. United States* is of historical significance, as the Court concluded that “obscenity” was not within the area of constitutionally protected speech or press. The Court determined that the obscenity test was whether, to the average person applying contemporary community standards, the dominant theme of the material taken as a whole appealed to prurient interest.”⁴ In 1966, as a result of *A Book Named “John Cleland’s Memoirs of a Woman of Pleasure” v. Attorney General of Massachusetts*, the Court decided that nudity alone did not make an image obscene, and a newer pronged test for determining obscenity was developed. The conditions that had to be met for a work to be deemed obscene were:

- (a) The dominant theme of the material taken as a whole appeals to a prurient interest in sex.
- (b) The material is patently offensive because it affronts contemporary community standards relating to the description or representation of sexual matters.
- (c) The material is utterly without redeeming social values.⁵

The current test for deciding if a work is obscene derived from the 1973 case of *Miller v. California*. In *Miller*, the Supreme Court “defined the standards that were to be used to identify obscene material that a state might regulate without infringing on the First Amendment, applicable to the states through the Fourteenth Amendment.”⁶ Thus, the Justices “left the ultimate determination of what constitutes offensive material to juries.”⁷ The Court did not dictate how states “should regulate obscene material, but it did offer examples of how states could interpret and define for themselves the Court’s standard for obscenity.”⁸ The guidelines brought forth by *Miller* expanded the *Memoirs* condition that a work be “utterly without redeeming social value”⁹ to be judged as obscene, and the Court decreed the community standards guideline so that “a work not considered obscene in one state or country or town may constitutionally be considered obscene in another.”¹⁰ Per the *Miller* test, the three criteria for a work to be considered obscene are:

- (a) The average person, applying contemporary community standards would find that the work, taken as a whole, appeals to the prurient interest.
- (b) The work depicts or describes, in a patently offensive way, sexual conduct specifically defined by the applicable state law.

- (c) The work, taken as a whole, lacks serious literary, artistic, political, or scientific value.¹¹

This author agrees with the decision to grant states the authority to assess what is obscene by their own community standards, for I believe it is unrealistic to expect a progressive urban center to have the same value system as a rural town. It is possible that, for example, in metropolitan areas where the general population is more highly educated about art and more likely to be exposed to graphic images as a part of daily life, there would be greater understanding and acceptance of controversial art (such as that depicting human nudity). In contrast, a small town with little access to contemporary examples of nudity in art may likely have little tolerance for it. To hold these two communities to the same standards would be unjust. That said, the states have had their difficulties in evaluating the law as well, and the *Miller* test has been challenged numerous times. One of the most notable examples of this occurred in Ohio, with the *City of Cincinnati v. Contemporary Arts Center*. This case involved the display of 173 photographs by the artist Robert Mapplethorpe, of which five photos violated Ohio's obscenity law. The first prong of the *Miller* test, specifically the "taken as a whole" requirement, was brought into question. The defense argued that each photo was not a separate element, but rather that the entire exhibit of 173 photographs constituted the "whole," in which case, the five photos deemed as obscene could not be evaluated individually. The court rejected this argument, and concluded that each photo was considered an individual piece of art; therefore, the five could be singled out from the other 168.¹²

Adding another facet of complexity is the issue of displaying art containing nudity in public spaces. "The Court's first application of the designated public-forum doctrine within an artistic context came in 1975 in *Southeastern Promotions v. Conrad*."¹³ City officials denied the plaintiff permission to use a municipal auditorium for a musical performance that contained "nudity, sexual themes, promotion of drug use and profanity."¹⁴ The Court decided that the auditorium was a designated public forum and that the auditorium directors had "sole authority to determine what speech occurred in the auditorium."¹⁵ The Court held that "the city's opinion that the play was not in the best interests of the community was not sufficient to overcome the plaintiff's First Amendment rights."¹⁶

When the government supports art through public funding or displays art in government-funded spaces, it can cause a paradoxical situation where the government is dually responsible for protecting artistic speech, while simultaneously promoting the public's best interest. There are two aspects that the government must consider when enforcing the public forum doctrine: 1) the nature of the

forum and 2) the restrictions on speech based on the type of forum.

In private spaces that do not receive government funding, obscenity must be alleged for legal action to be taken to restrict access to the art. Conversely, "the extent of protection afforded to a speaker using government-owned facilities is chiefly dependent upon how a particular property is designated."¹⁷ "When it comes to free speech, all public properties are not created equal,"¹⁸ and the courts have three classifications for public spaces: traditional, limited, and nonpublic. Traditional public forums include "the streets, sidewalks, and parks . . . being held in trust for the public. In a traditional public forum, the state may not restrict speech based on content unless it can show that its regulation is necessary to serve a compelling state interest and is narrowly tailored to achieve that interest."¹⁹ Governed similarly are limited public forums, which are defined as "public property which the state has opened for use by the public as a place for expressive activity."²⁰ The state need not keep a limited public forum open to the public indefinitely, but while it is open, it is subject to "content-neutral time, place and manner restrictions so long as the restriction is necessary and narrowly tailored to serve a compelling state interest."²¹ Examples of limited public forums are "university meeting facilities, municipal theaters and school board meeting rooms."²² Lastly, a nonpublic forum is "private or government-owned property that is not traditionally open to the public for expressive activity."²³ Nonpublic forums include "courthouses, prisons, military bases, and airport terminals."²⁴ Here, the government has "far greater discretion in regulating the expression that may take place and, more specifically, the artwork that adorns the walls."²⁵ State and local courts have the authority to decide whether a work of art with a content-based restriction, such as nudity, is allowed to be shown in a public gallery or other public space. "Although such regulations may not be directed at suppressing a particular viewpoint, the government need merely prove there is a legitimate, rather than a significant, governmental interest behind the regulation."²⁶

It is rare that an artist is able to obtain a traditional or limited public forum ruling. The 1992 case of *Claudio v. United States* exemplifies this. Artist Dayton Claudio obtained a permit to display his artwork titled "Sex, Laws, and Coathangers" in the lobby of a federal building in Raleigh, North Carolina. The painting, which contained graphic imagery of a female, a fetus, and coat hanger, sparked such controversy that the government revoked the artist's license to exhibit the work. The plaintiff argued that the lobby was a limited public forum, but the District Court found that the lobby was a nonpublic forum, thus upholding the validity of the removal of the artwork.²⁷

Furthermore, states may assert what is known as the captive audience doctrine, to “justify infringements on the First Amendment freedoms”²⁸ as an “assault on individual privacy.”²⁹ A captive audience is defined as “a person or group of people forcibly subjected to view or hear expression in the use of public facilities or places where they are reasonably unable to avoid seeing or hearing the expression.”³⁰ Sexually explicit art, even art that is not deemed obscene, has been the primary target of the captive audience doctrine. Nudity-based art is especially susceptible to this stipulation when it contains no political context, as “political” speech is frequently considered vital to the mission of the First Amendment. When asserted, the doctrine requires the court to “weigh the rights and interests of the state and offended viewers against the First Amendment rights of the artist or exhibitor to display works to a captive or unwilling audience.”³¹ The captive audience doctrine was taken into consideration in the case of *Close v. Lederle*, in which the court stated, “Freedom of speech must recognize at least within limits, freedom not to listen.”³² The captive audience doctrine, however, cannot be asserted in public forums. As exemplified in the case of *Claudio*, the court held that removing a painting of a nude female with a fetus was not a violation of the artist’s rights,

because the lobby of the federal building was a nonpublic forum, defendants could impose reasonable restrictions on First Amendment activity. The court stated that the painting constituted a threat to the building’s security, and the painting depicted a vulgar and controversial political expression. Finally, the court held that the defendants’ revocation of the license was consistent with First Amendment law because the revocation was reasonable and was not motivated by a desire to suppress plaintiff’s viewpoint.³³

Additionally, a special set of considerations exist when minors are concerned. The “courts seem more willing to abridge First Amendment rights when children may be exposed to adult material.”³⁴ To protect minors, works that are not obscene may be regulated by states.³⁵ For example, New York and several other states have made it a felony to display indecent materials, including “visual representation or image of a person or portion of the human body that depicts nudity . . . and that is harmful to minors.”³⁶ The *Close* case provides a notable example of this. The First Circuit reversed a lower court’s finding of a First Amendment violation when a state university removed a controversial art exhibit from a display corridor. The exhibit took place in 1976 at the University of Massachusetts’ Student Union Building corridor, and encompassed 31 paintings, including explicit nudes, by

the artist and then university instructor, Charles (Chuck) Close. The corridor was “used daily by many students, faculty members and administrators. . . . It was also frequently used by members of the general public, including some children, attending lectures and other activities open to persons outside the university community.”³⁷ Although the corridor was a public forum,

the court weighed the interests of the artists against the interests of the public, which included children, who walked the corridor daily. The court reasoned that there was no suggestion that the artist sought to express any political or social views in his art, making his constitutional interests minimal.³⁸

“Laws have evolved as landmark cases have shined new light on the unique issues present in judging artistic merit, but ultimately it is a judgment call as one person’s classic nude is another person’s pornography.”

While there have been cases in which artists have benefited from the ambiguity of the law, in most scenarios they have been defeated. In an effort to set a standard, some courts have used the absence of a political message as a denial of viewpoint. In the *Close* case for example, the court judged that “there is no suggestion, unless in its cheap titles, that plaintiff’s art was seeking to express political or social thought.”³⁹ A similar determination was made in the *Claudio* case.

The power of artistic expression lies in its ability to communicate thoughts and emotions that transcend the printed or spoken word. Court rulings on the subject of nudity in art have been inconsistent, and it is difficult to trust that traditional First Amendment doctrines can adequately protect works of art. Laws have evolved as landmark cases have shined new light on the unique issues present in judging artistic merit, but ultimately it is a judgment call as one person’s classic nude is another person’s pornography. State legislatures face challenges when legislating objectively on decidedly subjective material. There is also a lofty task for the courts to distinguish between the content of artwork and the artists’ viewpoints, which is not easy to do, especially in the case of abstract art. Moreover, as new media art forms such as video art assimilate into the mainstream, fresh questions and controversy will surely arise on the topic of nudity in art, and what is obscene.

Endnotes

1. <http://www.tjcenter.org/ArtOnTrial/bodyart.html>.
2. <http://www.firstamendmentcenter.org/speech/arts/topic.aspx?topic=nudity>.
3. <http://www.tjcenter.org/ArtOnTrial/obscenity.html>.
4. *Roth v. United States*, 354 U.S. 476 (S. Ct. 1957).
5. Ralph E. Lerner and Judith Bresler, *Art Law: The Guide for Collectors, Artists, Investors, Dealers, and Artists*, 3rd ed., Practising Law Institute, 2005.
6. *Miller v. California*, 413 U.S. 15 (S. Ct. 1973).
7. <http://www.firstamendmentcenter.org/speech/arts/topic.aspx?topic=nudity>.
8. *Id.*
9. Lerner & Bresler, *supra* note 5.
10. *Id.*
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20. *Id.*
21. *Id.*
22. *Id.*
23. <http://www.ncac.org/art-law/glossary.cfm>.
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26. *Id.*
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32. *Id.*
33. *Claudio v. United States of America*, 836 F. Supp. 1230 (U.S. Dist. 1993).
34. <http://www.firstamendmentcenter.org/speech/arts/topic.aspx?topic=nudity>.
35. Lerner & Bresler, *supra* note 5.
36. *Id.*
37. *Close v. Lederle*, 424 F.2d 988 (1st Cir. 1970).
38. <http://www.firstamendmentcenter.org/speech/arts/topic.aspx?topic=nudity>.
39. *Close v. Lederle*, 424 F.2d 988 (1st Cir. 1970).

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Wealth Nation: Times May Truly Be A-Changin'¹

By Daniel J. Scott

So much has happened to the music industry in the last decade. An innovative college student forever changed the landscape of the music industry from the confines of his college dorm, as the world was catapulted into the digital age of media and file-sharing. Corporate giants fell to their knees and cried poverty as album sales continued to plunge. Ringtones became major sources of revenue, and large department stores known for carrying everything from appliances to sleep apparel gained exclusive rights to sell highly anticipated albums. Record labels grew increasingly interested in how many “hits” each song has on MySpace, as opposed to how many seats they could fill in the local clubs. Some major acts, like Radiohead and Nine Inch Nails, completely removed the middleman and released their music directly to fans over the Internet. Most recently, Madonna, Jay-Z and others made headlines by signing blockbuster deals with Live Nation, while other record companies adopted the so-called “360-deal” approach.

Nobody knows for certain what all of this means, but what is clear is that the music industry is undergoing a serious makeover. While we may be faced with the challenge of adapting to new forms of media and the creation of a new and viable business model for the digital age (and beyond), we are also being presented with the opportunity to cure some of the perceived inequities of the past—specifically, the exclusive and infinite ownership of master recordings by record companies.

It was not too long ago that Prince painted the word “slave” on his face and changed his name to a symbol in an attempt to break his contract with his then record label, Warner Bros. Similar artist-record label feuds unfolded publicly in the past, from Frank Zappa to 30 Seconds to Mars. Most, if not all, of these disputes stem from the ownership and control of the master recordings. Until recently, master recordings were typically owned entirely by the record company, and artists were deemed “works-for-hire.” As a result, while an artist would be entitled to share in the revenue generated by the exploitation of the artist’s master recording (after the record company recouped its costs, of course), the artist never owned the underlying asset—that is, the master recording—itsself. This has been a source of controversy that has frustrated artists for years, leading to countless tales of successful bands failing both professionally and economically because of the record companies’ loss of interest in promoting them. It has also deprived the artist of a potentially valuable asset and source of wealth.

As I understand them, the Live Nation deals (or at least many of them) are turning the traditional model for recording agreements on its head. Instead of the artist effectively providing a service to the record company in exchange for a percentage of revenue, Live Nation is providing a service to the artist in exchange for a percentage of revenue. The

bonus is that the artist is ultimately retaining ownership of the master recordings. How could this be? you ask. Has Hell frozen over? Not exactly.

What Live Nation has realized is that the real money is not made on album sales, but rather on touring, merchandise, publishing, ringtones, and other ancillary markets. As a result (and by no small part because of its control of many concert venues), Live Nation would prefer a percentage of the revenue generated by all of these various markets over owning the master recordings. Some may argue that Live Nation is in actuality taking more from the artist than record companies typically have in the past. Granted, this is from a significantly larger pool of income than record companies would ordinarily take a percentage (which, of course, is also changing), but the artist does ultimately keep ownership of the master recordings, and after the term of the Live Nation deal expires (e.g., 10 years), the artists will be free to do as they please with their works.

It remains to be seen how artists will succeed financially during the term of a Live Nation deal. While the artist may be giving away a greater percentage of his income from more varied sources, Live Nation may prove to be more lucrative for artists, depending on the success it achieves with promoting and exploiting the artist in all of these various markets.

What fascinates this author about this new business model, however, is not really the economics of album sales or downloads, or concert and merchandising profits. It is the artist’s possible retention of the ownership of the master recordings, and the long-term opportunities this retained ownership creates from a wealth, tax and estate planning perspective. One of the common difficulties in such planning for recording artists is that, if successful, they are extremely income heavy—making large sums of money during a typically short period in their careers while they are popular—without really having any wealth or equity to show for it. Put another way, artists are like extremely highly paid employees, as opposed to the owner of a successful company (the latter of whom is both highly paid, with the added value of owning the company). If artists own their master recordings, then they may begin their careers owning a very real (and potentially valuable) asset that can earn significant income for generations to come, or be sold in the future for a significant profit.

Typically, when an artist begins his career, he owns very little, if anything, in the way of assets. It is only from the income generated by ticket, merchandise, album and other sales that he is able to acquire substantial assets (e.g., homes, cars, yachts, aircraft, jewelry, and other luxury items) and make other investments to accumulate and grow wealth. Owning a catalog of master recordings from the beginning would be a major head-start to accumulating

wealth. More importantly, those master recordings will be valuable assets that will give the artist leverage he does not currently have. For example, they can be used to borrow funds in order to make other investments now, as opposed to having to save the money earned from touring, merchandise and album sales in order to make investments in the future. Starting out by owning own master recordings will better position the artist to put together a diverse portfolio of investments early in his career, which will be beneficial once the spotlight dims.

Another upside to having an artist own master recordings is the control that comes with exploiting those masters during the course of the artist's lifetime and beyond. With the variety of possibilities ever expanding—commercials, movies, television, ringtones, videogames, and downloads, among other things—the artist is (and, arguably, always has been) better positioned to oversee and aggressively market and exploit his music over the long term. Too often, an artist's success fails the minute popularity wanes or the record company loses interest. Yet that does not mean that the artist's hits do not continue to have a commercial outlet, and who better to own those master recordings and push for their continued exploitation long after the artist's career has ended than the artist himself? Rather than collecting dust in some record company archive years after everyone (including the record company) has forgotten about an artist, or occasionally appearing on a "one hit wonders" countdown, an artist would be able to continue celebrating his work and earn money from it.

Even though some artists and their estates have had continual success long after their careers and lives have ended (the Elvis Presley estate, for example), these stories are the exception, where cultural icons passed a legacy to their heirs based on the brand that the artists' successes were ultimately able to create. However, what about most artists who never reach that status? They, too, should be able to make the most of their works during their lifetimes and benefit future generations. Ownership over master recordings is a key component to achieving this success and can be a significant asset for an artist's heirs, especially where the artist has not achieved legendary status.

In addition the benefits provided to artists, this new business model could save record companies, which will profit from the added revenue streams not typically found in traditional recording contracts. The newfound partnership and atmosphere of teamwork between artist and record company should rejuvenate the industry. Artists (perhaps feeling less like a "slave") will be inspired to produce better music and perform more passionately. Record companies will be more incentivized to come up with creative ways of marketing the artists and their music, including via new technologies, in order to continue generating revenue. If the record company is successful and does its job, there is no reason as to why term renewals could not be negotiated (or become automatic, based on performance hurdles), in order for the record company to be guaranteed a continuing share in its investment in the artist.²

When negotiating deals for artist clients in the current climate, an entertainment attorney should try for the lion's share and have the client retain ownership of his master recordings. What once seemed impossible is now becoming a reality, and attorneys should seize this opportunity and create a new trend in the music recording industry. The "works for hire" clauses and assignments of rights in perpetuity should be eradicated. Instead, the artist and the record company should work together, as a partnership with one common goal: namely, the success of the client's career. Furthermore, when the time comes for the record company to move on—whether because of the artist's age, or maybe because interest has waned—it is important to have the client do so with pride and dignity, happy to move on from what was an exhilarating (if not surreal) experience, holding firmly to and owning his master recordings, along with all of the stories and memories that come with them, and ready to begin the next journey.

As for the record companies and executives, the idea of partnering with artists, as opposed to owning them, should be an exciting one. It is a time for record executives to remove their villainous capes and become heroes, beloved for saving the music industry and giving back to artists ownership stakes in their futures. It is a chance for record companies to stand by, and not over, the artists that they produce. More importantly, it may be a more viable economic model for the industry, providing greater wealth for all involved. Record companies will profit from the added revenue streams, and artists will retain their master recordings. To pull a line from Bob Dylan, the old road of traditional recording contracts is "rapidly aging. Please get out of the new one if you can't lend your hand . . ." (I hope you know the rest).

Endnotes

1. When this article was submitted for publication, Live Nation and Ticketmaster had entered into a definitive merger agreement, which was pending government approval. This article in no way reflects the author's opinion on the pending merger.
2. Another option, which still gives the artist ownership and ultimate control of the master recordings, is to have the record company be part owner of master recordings that it participates in producing, so that it can continue to receive a portion of the revenue generated by such master recordings after its services in promoting the artist are no longer desired.

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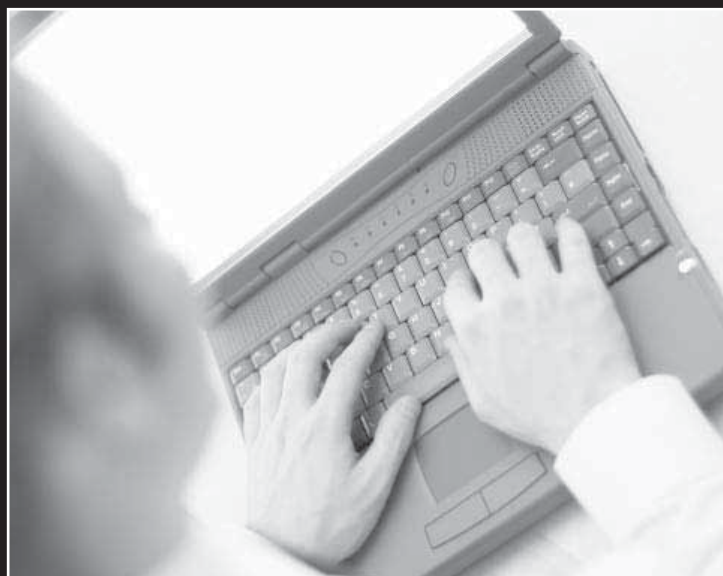
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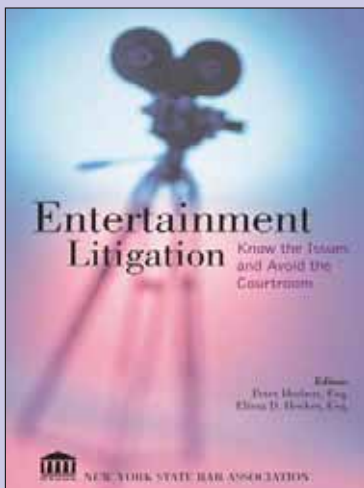
The 2007 Annual Meeting of the Section addresses two cutting-edge and highly publicized topics: "Digital Distribution of Audio and Video Content to Mobile Devices" and "YouTube and Myspace.com – Internet Socializing Communities or a Breeding Ground for Litigation?" (4.0 total MCLE Credits; available in DVD and videocassette formats)

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