LEGAL AFFAIRS

A Primer on the Law of Webcasting and Digital Music Delivery

by Bob Kohn

This article is dedicated to the memory of Frank Sinatra, whose life of music followed its own laws.

The passing away of Francis Albert Sinatra earlier this year marked the end of an era, but he remained with us long enough to witness the dawn of a new age, one that is being hailed as the digital millennium. For several years now, copies of Frank Sinatra's most popular recordings have been transmitted, mostly illegally, over the Internet, passing through cyberspace, like Strangers in the Night, to and from destinations unknown to the societies and collection agencies responsible for licensing these transmissions.

These recordings, and the musical works which underlie them, are being transmitted over the Internet in two basic ways: (1) by transmissions that are akin to radio broadcasts over the Internet, whether to the public at large or directly to individuals upon request, called webcasting, and (2) by the delivery of computer files, much like word processing files or spreadsheet files, that contain sound recordings that can be played on personal computers and other devices equipped with the necessary decoding and audio software and hardware. These I will refer to as downloadable music files or by the name of the file format which made them popular, MP3.

The webcasting of sound recordings and the proliferation of downloadable MP3 files have caused those who create and distribute recorded entertainment to question whether the laws designed to protect their copyrighted content, such as musical works and sound recordings, will effectively be enforceable in the digital world. To address the concerns of those who have answered this question in the negative, lawmakers have proposed and enacted new legislation.

The Digital Performance Rights in Sound Recordings Act of 1995 (the "1995 Act") was enacted to specifically address the concerns raised by copyright owners of musical works and sound recordings. This important legislation made two significant, but distinct, changes affecting the licensing of musical works under U.S. copyright law, one to address the questions raised by webcasting, and the other to address the questions raised by downloadable music files.

Because the 1995 Act fell short of addressing many of the questions raised by the application of digital technology to entertainment content, Congress recently proposed the Digital Millennium Copyright Act (the "DM Act"). The proposed DM Act is primarily intended to implement the recent World Intellectual Property Organization (WIPO) Copyright Treaty and WIPO Performances and Phonograms Treaty, both concluded at Geneva, Switzerland on December 20, 1996.

However, by a last minute amendment proposed in the House version of the bill, the proposed DM Act would appear to reverse certain provisions of the 1995 Act relating to webcasting, provisions which also appear to have originally been a negotiation error by the record industry. At the time of this writing, the DM Act was approved by the House of Representatives and was awaiting action by the Congressional Conference Committee for reconciliation with the Senate version of the proposed Act.

This article will discuss the application of the 1995 Act, and the relevant provisions of the proposed

DM Act, to webcasting and downloadable music delivery. It will also specifically address certain important controversies that neither the 1995 Act nor the proposed DM Act appear to resolve.

Issues

In a presentation I made at the first "MP3 Summit," a meeting of the nascent MP3 industry held on July 2, 1998 in San Diego, California, I provided a brief outline of forms of copyright protection that Congress provided the music industry when it enacted the 1995 Act. That outline is summarized in the following Table.

Table of Licensing Questions

Type of Digital Audio Transmission	License for Transmission of Musical Works (Music Publishers)	License for Transmission of Sound Recordings (Record Companies)
Digital Phono-record Delivery	1. Compulsory ($.071) [ASCAP/BMI/SESAC?]	2. Voluntary
Not a Digital Phonorecord Delivery		
Interactive	3. ASCAP/BMI/SESAC [Compulsory ($.071)?]	4. Voluntary
Non-interactive		
Subscription		
Non-compliant	5. ASCAP/BMI/SESAC	6. Voluntary
Compliant	7. ASCAP/BMI/SESAC	8. Compulsory
Non-subscription	9. ASCAP/BMI/SESAC	10. 1995 Act: No License DM Act: Compulsory if "eligible"

The Table describes ten different potential licensing questions facing webcasters and suppliers of downloadable files as they begin making plans to effect their digital audio transmissions containing copyrighted music. The answer to most of these questions is straightforward. The answers to Questions 1 and 3, however, are likely to remain the subject of some debate in the coming months, and the answer to Question 10 will depend entirely on whether the DM Act (in the form proposed by the House) is passed into law.

Recent Legislative Developments

To appreciate the importance of the proposed DM Act on Question 10, and how it affects webcasters, you must understand how the bill came about. In June, 1998, the Recording Industry Association (RIAA) sent a letter to about 40 web radio stations stating that they require licenses from record companies for the "webcasting" of their sound recordings over the Internet. "I write," stated

Steven Marks, vice president and deputy general counsel for the Recording Industry Association of American (the "RIAA"), "because our record company members are the copyright owners of the sound recordings that you are transmitting, and we want to ensure that you have secured the appropriate permission to Webcast those recordings." (The RIAA's letter, as well as the other documents mentioned below may be found in their entirety through web links located at http://www.kohnmusic.com and at http://www.mp3.com.)

In a brief article I wrote for non-lawyers, published in June, 1998 on the web, I pointed out that the RIAA letter neglected to state that only certain types of webcasts of copyrighted sound recordings require licenses from record companies, and I attempted to explain why many of them do not. Specifically, I stated that the 1995 Act exempted non-interactive, non-subscription digital audio transmissions of sound recordings, such as those produced by Internet radio stations, from any requirement of a license from their owners.

Steven Marks of the RIAA responded to that article in a formal letter to me dated July 1, 1998, which he then distributed for publication on the web and elsewhere. In this new letter, he attempted to explain why the RIAA believes the 1995 Act does not exempt non-interactive, non-subscription digital audio transmissions of sound recordings from the copyright owner's exclusive rights. A few weeks later, I posted on the web an article which refuted his analysis.

Meanwhile, on July 1, 1998, Hilary Rosen, President & CEO of the RIAA wrote a blistering letter to the CEO's of the top webcasting companies on the web, including RealNetworks, makers of software that facilitates digital audio transmissions, and Broadcast.Com, a leading Internet publisher of digital audio transmissions, such as retransmissions of radio broadcasts. A month earlier RealNetworks and Broadcast.Com had formed the Digital Media Association (or, "DiMA") to serve as a voice in Washington on behalf of Internet audio companies. In her letter, Rosen accused these companies of, among other things, "stabbing [the recording industry] in the back."

DiMA responded to that Rosen's letter by letter dated July 8, 1998, suggesting that one of the reasons DiMA was formed in the first place was that RIAA had gone around the backs of webcasters by lobbying to eliminate the ephemeral recording exception these companies had been relying on to facilitate their webcasting activities.

DiMA, however, was not comfortable being on the receiving end of the shrill of accusations being made by the RIAA, and offered to sit down with the RIAA to reach a compromise. In mid-July, DiMA and the RIAA met to discuss ways of compromising their differences. Within days, they reached an agreement in principle that would (1) eliminate the exemption for webcasters set forth in Section 114(d)(1) of the Copyright Act, (2) add a compulsory license scheme for limited kinds of "eligible" transmissions (i.e., those made by webcasters having the profile of members of DiMA), and (3) add language to Section 112 that would make it clear the "eligible" webcasters could make ephemeral recordings of sound recordings for the purposes of facilitating their webcasts.

On Thursday, July 23, 1998 representatives of the RIAA and DiMA and other music industry groups met with the U.S. Copyright Office in Washington, D.C. and were told by the Register of Copyrights that they had until the following Friday, July 31, 1998, to draft the legislation they were seeking. Miraculously, on August 4, 1998, the House of Representatives passed an amendment to the DM Act which included the legislation drafted and agreed upon by the RIAA and DiMA just days, and perhaps hours, earlier. At the time of this writing, the DM Act was awaiting action by the Congressional Conference Committee for reconciliation with a Senate version of the proposed Act.

Two Copyrights Involved

Before addressing the questions presented in the Table, it should be helpful to first review several important concepts, the first of which involves the difference between (a) a song and (b) a sound recording of a song.

Anyone seeking to obtain a license (i.e., permission) to use a recording of a song must first understand that his or her use will normally involve not one, but two copyrights: (a) the copyright in the sound recording and (b) the copyright in the underlying song, or musical work. The copyright in a sound recording, a particular a series of sounds, is completely separate from the copyright in the underlying song featured in the sound recording.

For example, there exists a valid copyright in the song I've Got You Under My Skin by Cole Porter and the copyright is owned by Warner/Chappell Music, Inc., a music publishing company. At the same time, several records of I've Got You Under My Skin have been recorded by numerous recording artists over the years. A completely separate copyright exists for each particular recording - the sequence of sounds that make up the performance of the song by a singer and orchestra. These recordings are owned by the respective record companies that commissioned their creation. For example, the 1956 version of Frank Sinatra's recording of I've Got You Under My Skin is owned by Capitol Records.

Thus, if you wished to obtain permission to use Sinatra's 1956 recording of I've Got You Under My Skin, you would require the permission of Capitol to use the recording and the permission of Warner/Chappell to use the underlying song. You could not use the recording without permission from both companies. If you wished to make a new recording of the song I've Got You Under My Skin, you would require permission from Warner/Chappell, but you would not require permission from Capitol Records or any other record company who happens to own a recording of the song.

Performance Right vs. Reproduction Right

The second important concept underlying this debate involves the difference between what is known as the reproduction right and the public performance right. The copyright law provides an owner of copyright several exclusive rights, including the exclusive right "to reproduce the work" (e.g., to make physical copies, such as CDs and sheet music) and "to publicly perform" the work (e.g., rendering a live performance of a song in a nightclub, or playing a recording of a song on the radio).

This exclusive right to reproduce copyrighted works applies to both musical works (e.g., the Cole Porter song) and sound recordings (e.g., the particular recording of it owned by Capitol Records). By contrast, however, the right of public performance under the U.S. copyright law only applies to songs, not to sound recordings. The owners of copyrights in songs have always had a general right of public performance in their musical works. As a result, the copyright owner of the song I've Got You Under My Skin (in this case, Warner/Chappel, through its performance rights representative, ASCAP) will collect money from radio broadcasts of Sinatra's 1956 recording.

By contrast, the record company (in this example, Capitol Records) is not entitled to collect money from such radio broadcasts, because, at least in the U.S., owners of sound recordings do not have a general public performance right.

Digital Performance Rights in Sound Recordings Act of 1995

As mentioned above, the 1995 Act made two significant, but distinct, changes affecting the licensing of musical works under U.S. copyright law: (1) to address the questions raised by webcasting, it created a new, but limited, digital public performance right for sound recordings, and (2) to address the questions raised by downloadable music files, it broadened the Copyright Act's existing compulsory mechanical license provision to include the reproduction and delivery of musical works in sound recordings by digital transmission.

Sound Recordings. Section 106 of the U.S. Copyright Act sets forth the exclusive rights of a copyright owner, which includes the exclusive right of reproduction and the exclusive right of public performance discussed in the previous section. However, the exclusive right of public performance, set forth in Section 106(4), only applies to the following specific types of copyrighted works: "literary, musical, dramatic, and choreographic works, pantomimes, and motion pictures and other audiovisual works." Note that sound recordings are not on the list.

To partially address this omission, the 1995 Act added a new Section 106(6), which provided the owner of copyrights in sound recordings an exclusive right in the public performance, but only when such performance is "by means of a digital audio transmission." This new limited right of public performance does not apply at all to analog transmissions and was severely limited by the exemptions and other conditions set forth in Section 114 of the Copyright Act, entitled, "Scope of Exclusive rights in Sound Recordings," which I'll turn to below.

Musical Works. Under Section 106(1) of the Copyright Act, a copyright owner of a musical work has an exclusive right to reproduce the song in copies and phonorecords. This right, however, is subject to Section 115 of the Copyright Act, which is often referred to as the "compulsory license provision." Briefly, as long as records of a song were previously distributed in the United States, the compulsory license provision allows anyone else to compel the copyright owner of a song (e.g., a music publisher) to license the song at a license fee that is established by law - this fee is called the "statutory rate." The statutory rate, as of January 1998, is 7.1 cents, or 1.35 cents per minute of playing time.

The 1995 Act broadened Section 115 so that the existing compulsory mechanical license now covers downloadable music files, something which the 1995 Act calls "digital phonorecord deliveries" (which are explained in more detail below). In other words, if you want to effect digital phonorecord deliveries of other peoples songs, you may obtain a license at the statutory rate. The 1995 Act established a procedure by which the statutory rate for these digital phonorecord deliveries would be set, but as of the time of this writing, such rate has not been announced. (For purposes of this article, it is assumed that the statutory rates for the reproduction and distribution of phonorecords in physical form and that of digital phonorecord deliveries will be the same).

The Players

The final concepts underlying this debate concerns knowing who the various music industry players are and who they represent While this may be second nature to music industry veterans, webcasters who earnestly try to discern who it is they have to pay, and what it is they have to pay for, can find this to be a most intimidating endeavor. With apologies for the entertainment law buffs for the following superfluity and to foreign nationals for omitting all but the relevant U.S. industry players in our wonderfully complex industry, I offer the following simplified descriptions:

Record Company. Record companies are entities who enter into contractual relationships with recording artists for the financing, promotion, and distribution of sound and video recordings featuring artists' performances. In return, the artist is paid a royalty, which is typically in the form of some percentage of the revenues earned by the record company in connection with the various kinds of commercial exploitation of the artist's recorded performances.

Music Publisher. Music publishers are entities who enter into contractual relationships with songwriters, often the same person as the recording artist, for the commercial exploitation of the songs written by the songwriters. Publishers may license the song for use in recordings made and distributed by record companies, for use in printed editions, such as sheet music and songbooks, and for live and recorded performances of the songs in nightclubs, restaurants, hotels and similar establishments and on radio, television and other kinds of broadcasts.

ASCAP/BMI/SESAC. These organizations, commonly known as "performance rights societies," represent music publishers and songwriters solely with respect to the performances of the songs. Music publishers and songwriters use these organizations to collect money from nightclubs, restaurants, hotels, and other venues, and radio and televisions stations for the public performance of all the songs they represent in their respective catalogs. They may charge the venues an annual flat fee and charge the radio and television stations a percentage of advertising revenues in exchange for a "blanket license" to use all of the songs the particular performance rights society controls or represents. After collecting the money on a blanket basis, each organization then takes surveys of what songs are played during the year; they then allocate the total collected revenue among the particular songs performed and pay each respective music songwriter and corresponding music publisher an amount representing what the song earned in performance royalties during the year. The performance rights societies only deal with the songs, not the recordings of songs, and as previously mentioned, only deal with performances of songs, not with the making or distribution of records or other copies containing songs.

Harry Fox Agency. This is an organization that specializes in issuing licenses to record companies for the reproduction of songs in CDs and other kinds of records. The fees they charge for these uses is limited by the "statutory rate" specified in the U.S. Copyright Act. After retaining a small percentage for its services, the Harry Fox Agency pays these fees to music publishers (which then pays typically half of that to the songwriter). Some music publishers issue their own mechanical licenses directly to record companies, but many find the economies of scale offered by the Harry Fox Agency to be worth the services fee charged. Though the Harry Fox Agency performs other kinds of licensing services for music publishers, they do not license performance of songs or engage in any form of licensing services for record companies.

Recording Industry Association of America. The RIAA, headquartered in Washington, D.C., is a trade association which represents record companies. The RIAA's stated mission is to promote the mutual interests of record companies, as well as the betterment of the industry overall through government relations, intellectual property protection, and international activities. The association also operates an aggressive anti-piracy unit, conducts extensive consumer and industry research, and provides ongoing communications support.

Terms of Art

With these important concepts in mind, we can now turn to answering the ten basic licensing questions raised by the digital transmission of recorded music.

Before exploring these questions, one at a time, we will review two key terms of art: that of (1) "digital audio transmission" and (2) "digital phonorecord delivery."

Digital Audio Transmission

First, as mentioned above, the 1995 Act provided to owners of sound recordings an exclusive right to publicly perform them by digital audio transmission. Essentially, to qualify for the exclusive right, the transmission must be (a) in digital form, (b) audio-only, and (c) a transmission.

A "digital transmission" is a transmission that is in a digital or other non-analog format. Thus, AM and FM broadcasts in analog form are not covered. Next, it must be audio-only, not audiovisual, because audiovisual works already have a public performance right under Section 106(4). As a result, audiovisual works, such as music videos, are not subject to any of the limitations to which Section 106(6) is subject, even if only the sound-track of the video is transmitted. Finally, it must be a transmission. To "transmit" a work is to communicate it by any process or device whereby sounds or images are received beyond the place from which they are sent. Thus, rendering a live performance, even with the use of a megaphone or loudspeakers, does not itself involve a transmission.

Digital Phonorecord Delivery

Second, there are two basic kinds of digital audio transmissions: (1) those that result in a specifically identifiable reproduction of a phonorecord by or for any transmission recipient and (2) those that don't. Transmissions that do are called "digital phonorecord deliveries," the detailed definition of which is set forth in the next section. An example of a digital phonorecord delivery would be the commercial sale from a web site of an "MP3 file" - that is, a sound recording saved as computer data file using the compression techniques of an MPEG layer-3 software encoder - downloaded from a web site directly over the Internet to the home computer of a consumer.

Digital Audio Transmissions That Result in Digital Phonorecord Deliveries

Question 1: What licenses are required from the owner of a song to permit a digital phonorecord delivery of a sound recording containing the song - that is, the digital transmission that results in the recipient winding up with a phonorecord containing the song?

Reproduction Right. Recall that a copyright owner of a musical work has an exclusive right to reproduce the song in copies and phonorecords. This right is subject to Section 115 of the Copyright Act, which is often referred to as the "compulsory license provision." Briefly, as long as records of a song were previously distributed in the United States, the compulsory license provision allows anyone else to compel the copyright owner of a song (e.g., a music publisher) to license the song at a license fee that is established by law - this fee is called, the "statutory rate."

As mentioned above, the statutory rate, as of January 1998, is (assumed to be) 7.1 cents, or 1.35 cents per minute of playing time. In other words, if you want to effect digital phonorecord deliveries of other peoples' songs, you may obtain a license at the statutory rate. The license which authorizes these transmissions is called a "mechanical license," and the organization in the United States that issues most of them is the Harry Fox Agency. The nice thing about these licenses is that you know you can always get it, and the statutory rate serves as a ceiling to what the music publishers or the Harry Fox Agency can charge you. In addition, the Harry Fox Agency is currently negotiating an agreement with its international counterparts that would make it clear that mechanical licenses will be collected from the source of the transmission - that is, the web site offering the digital phonorecord deliveries - regardless of where in the world the transmission recipient receives his or her copy of the recording. Mechanical licenses are easy to get, and God bless them.

Performance Right. But there is a little controversy brewing here. The performance rights societies (e.g., ASCAP, BMI, SESAC) appear to be taking the position that a performance license is required to effect a digital phonorecord delivery, even though a statutory mechanical reproduction license has already been obtained for the same delivery. In their view, all transmissions of songs constitute performances of songs, whether or not they result in a specifically identifiable phonorecord made by or for the transmission recipient, and therefore, they say, you must also pay a public performance fee for these transmissions.

The performance rights societies have not yet disclosed how much they intend to charge for these transmissions. They are likely to seek something less than what they charge for transmissions that do not constitute digital phonorecord deliveries, such as "streaming" audio transmissions (see below).

A webcaster may legitimately ask: if I am paying 7.1 cents for the digital phonorecord delivery, why must I also pay for its transmission, particularly if the phonorecord is not truly performed or in any way rendered during the transmission? Isn't this a form of "double-dipping" by the music industry?

I have yet to take a position on this particular controversy, but, at the risk of being branded a pirate by the music industry and a music industry lackey by the web community, I will venture to briefly point out various positions that have been, or may be, made to support each side in this debate.

For example, the performance rights societies could point to the definition of "digital phonorecord delivery" to support its position. The complete definition of that term, which was added to the Copyright Act by the 1995 Act, is as follows:

"A `digital phonorecord delivery' is each individual delivery of a phonorecord by digital transmission of a sound recording which results in a specifically identifiable reproduction by or for any transmission recipient of a phonorecord of that sound recording, regardless of whether the digital transmission is also a public performance of the sound recording or any nondramatic musical work embodied therein."

One could certainly infer from the italicized language that a digital phonorecord delivery may involve the public performance of the musical work embodied in the sound recording. But only that it may do so is the best you can say about it. If Congress intended to definitively answer the question, it certainly could have done so in unambiguous terms, such as, "A digital transmission containing a sound recording that results in a digital phonorecord delivery constitutes a performance of any musical work embodied in that sound recording." But it didn't.

Quite possibly, Congress recognized that some digital phonorecord deliveries may be performed or "streamed" for listening by the user while they are being downloaded; hence, the italicized language may have been needed to make certain that a digital phonorecord delivery will still be deemed such, even if the digital transmission happens also to constitute a public performance.

The performance rights societies could point to the definition of public performance:

"To perform . . . a work publicly means -

(1) to perform or display it at a place open to the public or at any place where a substantial number of persons outside of a normal circle of a family and its social acquaintances is gathered; or

(2) to transmit or otherwise communicate a performance or display of the work to a place specified by clause (1) or to the public, by means of any device or process, whether the members of the public capable of receiving the performance or display receive it in the same place or in separate places and at the same time or at different times."

It appears, from the italicized language, that it does not matter whether you hear the performance at the same time as you download the file. Certainly, when a recording is being streamed to you, it is first buffered in your computer's temporary memory, before the recording is actually played so that you can hear it. What is the difference between storing the recording in temporary memory and storing it on your hard disk (which is typically the case with a digital phonorecord delivery) prior to your hearing the recording?

The problem with these arguments is that the above definition concerns not what a performance is, but what it means to perform a work publicly (as opposed to privately). Nevertheless, even if the transmission of a work is considered a public one, it may still not constitute a performance. According to the Copyright Act, "To perform a work means to recite, render, play, dance, or act it, either directly or by means of any device or process . . . "

It may well be asked, where, for purposes of the definition of "perform," is the "rendering" or the "playing" of the work in a the transmission of a downloaded music file? The performance rights societies could take the position that a sound recording of a work is itself a "rendering" (i.e. a performance, albeit a recorded one) of the work. This is as opposed to sheet music where the musical notations only are listed. When one digitally transmits the sound file, one is engaged in a transmission of the recorded performance, as hence, it may be said, the requisite "rendering" is taking place.

This argument would be plausible but not for the definition of "sound recordings," which is defined in the Copyright Act as "works that result from the fixation of a series of sounds." Thus, by definition, a sound recording is a fixation of sounds, not a rendering of sounds. Arguably, then, by transmitting a sound recording, you are transmitting a fixation of sounds, not a performance or rendering of them.

A better argument, from the performance rights societies perspective, would be to say that the downloading of a digital file is part of a process that results in a rendering or playing of the work at the recipient's end. Recall that to perform a work means to render or play the work, "either directly or by means of a device or process." Thus, arguably, the process of transmitting the bits constituting a digital sound recording file, the recipient's buffering those bits or saving them to his hard disk or other storage media, and his playing of the bits, either as the bits are being downloaded or later, even after the entire file has been saved to disk, constitutes a playing or rendering of the sound recording, "either directly or by means of a device or process."

Because technology now permits the playing of the bits either as the bits are being downloaded or after all the bits in the file have been received, the distinction between a digital phonorecord delivery (DPD) and a non-DPD (i.e., a purely "streaming" digital audio transmission) is being blurred. The performance rights societies may argue that all of these transmissions should be considered performances, merely because it is too impractical, on a case-by-case basis, to make a distinction between them.

In addition, the performance rights societies have argued that a digital phonorecord delivery provides an added value to the consumer - that is, with the advent of digital deliveries, the consumer no longer has to schlep down to a record store to buy a CD; he or she can just order it online and receive it in minutes. Consequently, that added value should be paid for. This argument, however, was first made before the success of companies like Amazon.com, from whom you can now order a CD and have it sent to you by overnight courier. What practical difference does it make whether the tracks constituting a record album come to you overnight or several minutes or hours after you have requested them to be downloaded?

Moreover, it may be reasonable to assume that if Congress made digital phonorecord deliveries subject to a compulsory license under Section 115, and set the fee for such licenses at the statutory rate, then, arguably, it should be unnecessary for anyone to pay more than the statutory rate to effect the delivery, "regardless of whether the digital transmission is also a public performance of . . . any musical work embodied therein." Again, the quoted language is from the Act's definition of digital phonorecord delivery, and one could infer from it that Congress wanted to make certain that a digital download of a sound recording will be deemed a digital phonorecord delivery, subject to the compulsory license, with no one having to pay more than the statutory rate, even if the digital transmission happens also to constitute a public performance.

If the performance rights societies are not successful in persuading the industry, or a court, that all digital phonorecord deliveries constitute performances, one might think that the practical result will be this: if the statutory rate for a mechanical reproduction license is paid with respect to a transmission, then, a performance royalty is not due for the same transmission. Payment of the statutory fee for a mechanical license is intended to cover the sale of a copy (i.e., a physical phonorecord or a digital phonorecord delivery) and, theoretically, all private performances of the song arising from the use of such copy - and this would include the first performance or rendering that occurs concurrently with the transmission of the digital phonorecord delivery or sometime after the digital phonorecord delivery is completed.

This, however, is complicated by the following problem: As will be discussed below in connection with Question #3, the Harry Fox Agency, on behalf of the music publishers which it represents, appears to be taking the position that a digital audio transmission of a musical work that is effected by means of an "interactive service" (discussed below) constitutes a digital phonorecord delivery, even though there is no assurance that the recipient will end up with a reusable copy of the recording. As such, the transmission will require payment of the statutory compulsory license fee, currently 7.1 cents. As pointed out below, no one disputes that a transmission that is a mere "streaming" of a recording is a public performance of the song underlying the recording, entitling the performance rights society to legitimately collect performance royalties for them. But, here again, the industry may be open to the accusation of "double-dipping."

It would seem that this sticky problem is something that should be worked out between the performance rights societies, which are largely controlled by songwriters and music publishers, and the Harry Fox Agency (or directly by their music publisher members and the songwriters who they represent). The problem is that neither group is likely to welcome the prospect of giving up their side of the revenues to avoid the perceived "double-dipping" problem.

Be that as it may, other arguments, of varying degrees of persuasiveness, have been put forth by both proponents and detractors on this question, but I thought it wise to reserve my views on the subject until such time as I have formulated them.

Question 2: What licenses are required from the owner of a recording to permit a digital phonorecord delivery containing the song - that is, the digital transmission that results in the recipient receiving a phonorecord containing the recording?

There is no controversy about the answer to this question: persons desiring to make digital phonorecord deliveries of sound recordings must obtain a license from the person who owns the recording, which is typically a record company. Further, unlike for the use of the underlying song, there is no compulsory license for these kinds of digital audio transmissions. In other words, you must obtain permission from the record company and the record company can charge whatever it likes or even refuse to grant you permission to make the transmission.

The reason for this is simple: digital phonorecord deliveries directly replace sales of records. Without such sales, the purpose of the copyright law will be defeated: Record companies would be unable to finance, promote and distribute new recordings, and artists would be unable earn royalties to support professional recording careers. As a result, there will be an economically insufficient supply of quality musical recordings for the buying public. It is the very purpose of the copyright law to ensure that artists and their record companies receive economic remuneration for their undertakings, so that an efficient supply of quality musical works and sound recordings will be produced and distributed to the listening public.

This theme of the extent to which digital audio transmissions would replace the sale of records played an important role in the development of the 1995 Act and is an important concept in understanding the distinctions among the various kinds of transmissions identified in the 1995 Act discussed below. For example, there is a great distinction between what licenses are required for digital audio transmissions that constitute digital phonorecords and transmissions that do not. As we shall see, the law extends stronger and more flexible performance rights to the owners of sound recordings in instances where the digital audio transmission poses a greater risk of replacing a record sale.

Digital Audio Transmissions That Do Not Result in Digital Phonorecord Deliveries

Of transmissions that do not result in digital phonorecord deliveries, there are two basic types: transmissions that are part of an interactive service and those that are not.

Under the U.S Copyright Act,

"An `interactive service' is one that enables a member of the public to receive, on request, a transmission of a particular sound recording chosen by or on behalf of the recipient. The ability of individuals to request that particular sound recordings be performed for reception by the public at large does make a service interactive."

Clearly, even if the digital audio transmission does not result in a copy at the recipient's end of the transmission, if the recipient can choose, on request, "a particular recording," then there is a high risk that the recipient will never need to purchase a copy of the recording or purchase a digital phonorecord delivery. If the interactive transmission is cheap enough, and the sound quality good enough, members of the public may choose to listen to interactive transmissions instead. Thus, to serve the purpose of the Copyright Act, a license for interactive transmissions is required. Let's take a look at what this specifically means in terms of the song and the sound recording.

Question 3: What licenses are required from the owner of a song to permit a digital transmission that is part of an interactive service, but does not result in a digital phonorecord delivery of the song?

Performance rights. Clearly, a digital transmission of a song that is part of an interactive service, but does not result in a digital phonorecord delivery of the song - for example, the mere "streaming" of a song after a user clicks on an icon or link to receive a transmission of a particular sound recording - constitutes a public performance of the song. Hence, the performance rights societies (e.g., ASCAP/BMI/SESAC) are entitled to collect performance royalties under their "blanket" licenses to web sites that offer these interactive transmissions.

Reproduction rights. It is here we find our second open controversy. As mentioned above, the Harry Fox Agency, on behalf of its music publisher members, is taking the position that songs digitally streamed from interactive services constitute digital phonorecord deliveries, even if no digital copy is, or can be, made by or for the intended recipient of the transmission. Accordingly, interactive transmissions of purely streamed music would require payment of the statutory compulsory license fee of 7.1 cents each.

As with the other potential "double-dipping" issue discussed in connection with the answer to Question #2 above, I have not formulated any definitive view on this subject, but the music publishers can take solace from a very specific provision that was in the DRPA and is now part of the compulsory license provision at Section 115(c)(3)(L):

"The provisions of this section concerning digital phonorecord deliveries shall not apply to any exempt transmissions or retransmissions under section 114(d)(1)."

In the view of the Harry Fox Agency, the above language implies that the provisions concerning digital phonorecord deliveries, while not applying to any exempt transmissions under Section 114(d)(1) - which we will discuss below - does in fact apply to those transmissions that are not exempt under Section 114, which would include all transmissions made as part of interactive services. Thus, according to the argument, the transmitter must pay 7.1 cents per interactive digital audio transmission, whether or not a copy results in the recipient. Regardless of whether one may agree with this result, the argument that the law, as written, requires this result, is a strong one.

Nevertheless, the Harry Fox Agency has recognized that an interactive transmission of a song that is of a short duration and which does not result in a copy being made for the intended recipient, is not likely to have an effect on the sale of a record or a full digital phonorecord delivery of the song. Accordingly, the Harry Fox Agency (and presumably the music publishers it represents) will allow such interactive transmissions without requiring payment of the statutory fee if (a) no more than 30-seconds of the song is transmitted and (2) the transmission is effected by or with the permission of the owner of the sound recording embodying the song. Note, this does not allow anyone to make such 30-second transmissions, only the record company that owns the recording, or its licensees.

Question 4: What licenses are required from the owner of a recording to permit a digital transmission that is part of an interactive service, but does not result in a digital phonorecord delivery of the recording?

As mentioned above, even if the digital audio transmission does not result in a copy at the recipient's end of the transmission, if the recipient can choose, on request, "a particular recording," then there is a high risk that the recipient will never need to purchase a copy of the recording or purchase a digital phonorecord delivery. For this reason, the law specifically gives owners of sound recordings, typically record companies, an exclusive right to license digital audio transmissions that are part of interactive services. This means the record company can charge what it wishes for these transmissions or refuse to provide a license at all.

Non-Interactive Services

As mentioned above, there are two kinds of digital audio transmissions that do not result in digital phonorecord deliveries: those that are part of an interactive service and those not part of an interactive service. Of those transmissions that are not part of an interactive service, there are two types: subscription transmissions and non-subscription transmissions.

The former requires a license, in one form or another, and the latter, under 1995 Act, does not require a license. Why? Returning to our recurrent theme, the distinction between subscription and non-subscription transmissions was made because it was felt that the risk of a music service which consumers pay for on a subscription basis poses a moderate to high risk of replacing the sales of records (either physical CDs or digital phonorecord deliveries), while those which are on a nonsubscription basis, like traditional, advertising supported radio broadcasts, and the like, pose only a low risk of replacing record sales.

Here are the relevant definitions:

"A `subscription transmission' is a transmission that is controlled and limited to particular recipients, and for which consideration is required to be paid or otherwise given by or on behalf of the recipient to receive the transmission or a package of transmissions including the transmission.

A `nonsubscription transmission' is any transmission that is not a subscription transmission."

Let's first turn to subscription transmissions.

Subscription Transmissions

I would have liked to report that the distinction between subscription and nonsubscription transmissions ends there, but it doesn't. Keeping in the theme of providing greater rights where there is a higher risk of replacing record sales, it was thought that some subscription transmissions are less likely to replace record sales than others. Accordingly, certain subscription transmissions would be treated like any interactive service, giving the record companies full flexibility to negotiate whatever license fees they like or refuse to license these forms of subscription transmissions. Other forms of subscription transmissions, those which pose a lower threat of replacing the sales of records, would fall within an area of the law which would allow transmitting organizations, like webcasters, to compel the record companies to grant a license and to pay a fee set not by the record companies, but by a federal arbitration panel.

Thus, the 1995 Act established two types of subscription transmissions of sound recordings: (i) voluntary subscription transmissions and (ii) compulsory subscription transmissions. Both require licenses from the sound recording owners, typically record companies. However, the former may be licensed by the record companies on a voluntary basis, meaning the record companies can set any licensee fee they wish, or refuse to license these transmissions. With respect to compulsory subscription transmissions, the record companies can be compelled to grant licenses and the license fees are subject to a statutory fee, which will effectively serve as a maximum amount that will be charged for such licenses. Let's first review the licensing questions arising from voluntary subscription transmissions - that is, those which are not subject to compulsory licensing.

Question 5: What licenses are required from the owner of a song to permit a digital transmission that does not result in a digital phonorecord delivery of the song, is not part of an interactive service, but is part of a subscription transmission that does not comply with compulsory license provision?

As with the distinction between subscription and non-subscription transmissions, the distinction between subscription transmissions that qualify for compulsory licensing and those that do not, is not relevant to the question of what license is required from the owner of the song embodied in a particular sound recording. (The distinction is only relevant to the question of what licenses are required from record companies for the transmission of these recordings). Thus, to transmit the song (as opposed to the sound recording) you always require a public performance license from the applicable performance rights society (e.g., ASCAP, BMI, or SESAC).

This is because, unlike with the general public performance rights which owners of songs have always enjoyed, owners of sound recordings do not have a general pubic performance right. The owners of sound recordings were only recently given a public performance right for digital audio transmissions of their recordings, and only after a period of prolonged negotiations which resulted in the limitations reflected in Section 114, including these fine distinctions between interactive and non-interactive services, subscription and non-subscription transmissions, and subscription transmissions that are subject to a compulsory license and those which are not. As we shall see, recognizing this licensing regime which Congress established is key to unlocking the answers to the questions raised by the recording industry with respect to non-subscription transmissions, under the 1995 Act.

Question 6: What licenses are required from the owner of a recording to permit a digital transmission that does not result in a digital phonorecord delivery of the recording, is not part of an interactive service, but is part of a subscription transmission that does not comply with compulsory license provision?

Leaving aside for the moment the criteria necessary to qualify for a compulsory license to make digital audio transmissions of sound recordings on a subscription basis, the person making a non-qualifying subscription transmission of a recording must obtain a license from the record company who owns the recording. Moreover, given that the license is voluntary, the fee charged by the record company for this license is completely subject to negotiation, meaning the record company may charge what it wants and is free even to refuse to provide a license for these transmissions.

Question 7: What licenses are required from the owner of a song to permit a digital transmission that does not result in a digital phonorecord delivery of the song, is not part of an interactive service, but is part of a subscription transmission that does comply with compulsory license provision?

As mentioned above, the distinction between subscription transmissions that qualify for a compulsory license and those that don't is not relevant to the question of what license is required from the owner of the song. The person making such a digital transmission must obtain a blanket license from the applicable performance rights society.

Question 8: What licenses are required from the owner of a recording to permit a digital transmission that does not result in a digital phonorecord delivery of the recording, is not part of an interactive service, but is part of a subscription transmission that does comply with compulsory license provision?

Recall that, if you are a transmitting entity that wishes to operate a subscription service, you have one of two forms of licensing mechanisms available to you: a "voluntary license" or a "compulsory license." Under a "voluntary license," the record companies in a free market can charge whatever they wish or refuse to license your transmissions at all. Under the "compulsory license," the record companies can be compelled to license the transmissions under license fees set by a governmental body, fees called the statutory rate, which effectively becomes a maximum fee that the record companies can charge for your use.

To qualify for a compulsory license to make a subscription transmission, a transmitting organization must meet the conditions set forth in Section 114(d)(2) of the Copyright Act. To complicate matters, however, the proposed DM Act would replace the provisions of Section 114(d)(2) with a new set of conditions that are in many respects more restrictive than those found under the Copyright Act amendments made under the 1995 Act. Accordingly, we will briefly review the applicable conditions, first under the current law and then under the proposed DM Act.

Subscription Transmissions Under the 1995 Act. To qualify, under the law currently in effect, for a compulsory license to make a subscription transmission, the following conditions must be met by the transmitting entity:

(A) the transmission is not part of an interactive service (defined above);

(B) the transmission does not exceed the "sound recording performance complement" (see below)

(C) the transmitting entity does not publish an advance program schedule or prior announcement of the titles of the specific sound recordings to be transmitted;

(D) the transmitting entity does not automatically and intentionally cause any device receiving the transmission to switch from one program channel to another, and

(E) the transmission of the sound recording is accompanied by any copyright management information encoded in that sound recording by the copyright owner.

The overall purpose of these conditions is to provide webcasters, and other transmitting organizations, with a guarantee that if the subscription transmissions which they desire to make have a low risk of being used by consumers to replace sales of records, then the transmitting entity will be allowed to compel the record companies to grant them a license to make such transmissions at a special rate that is established by law.

The lower risk of these transmissions being used to replace record sales is reflected in the conditions. For example, the transmission cannot be part of an interactive service. If the consumer were permitted to click on an icon or web link (or issue a voice command) and receive a particular recording on demand, he could be prepared to record each transmission and use such recordings for future private performances, which are not subject to payment to the sound recording owners. Similarly, the transmitting entity must not publish any advance program schedule or make any prior announcement of the titles of the specific recordings to be transmitted. Again, having access to the playlist in advance would allow the consumer to cherry-pick which sound recordings he or she would like to record at home.

Further, the transmission must not exceed the "sound recording performance complement." The sound recording performance complement, which is defined below, is designed to prevent a transmitter from obtaining a compulsory license at the preferred statutory rate for transmissions, such as an all Beatles channel or transmissions of all the songs from the same album.

"The `sound recording performance complement' is the transmission during any 3-hour period, on a particular channel used by a transmitting entity, of no more than -

(A) 3 different selections of sound recordings from any one phonorecord lawfully distributed for public performance or sale in the United States, if no more than 2 such selections are transmitted consecutively; or

(B) 4 different selections of sound recordings -

(i) by the same featured recording artist; or

(ii) from any set or compilation of phonorecords lawfully distributed together as a unit for public performance or sale in the United States, if no more than three such selections are transmitted consecutively: Provided, That the transmission of selections in excess of the numerical limits provided for in clauses (A) and (B) from multiple phonorecords shall nonetheless qualify as a sound recording performance complement if the programming of the multiple phonorecords was not willfully intended to avoid the numerical limitations prescribed in such clauses."

Again, the purpose the sound recording performance complement was to help define a category of transmissions that pose only a moderate risk that consumers will make home recordings of the transmission for the purpose of avoiding having to purchase records for later private performances.

If the subscription transmission meets all of the above conditions, it will qualify for a compulsory license. In other words, the transmitting organization, under the law, can compel the record companies to provide it with a license to make these transmissions and the license fee will be limited to the fee established by law.

Procedures relating to the compulsory license for subscription transmissions is set forth in Interim Regulations on Notice and Recordkeeping for Digital Subscription Transmissions Docket No. RM 96-3B, 63 Fed.Register 34289 (June 24, 1998), (on the web at http://lcweb.loc.gov/copyright/fedreg/96-3b.html). Subscription transmission services will be required to provide detailed reports, and maintain extensive records, of their use of sound recordings under the license. The organizations participating in the U.S. Copyright Office's development of these procedures included the Recording Industry Association of America (RIAA), and three digital music subscription services operating in the United States: DMX, Inc. (DMX); Muzak, Inc.; and

Digital Cable Radio Associates/Music Choice (DCR). Further, after the license fees for these transmissions have been paid, the money collected will be allocated to the record companies and recording artists, subject to provisions set forth in the 1995 Act.

Subscription Transmissions Under the Proposed DM Act. If the proposed DM Act is enacted in the form currently proposed by the House, the conditions necessary for a transmitting organization to effect subscription transmissions would change. The new conditions proposed under the DM Act are set forth on the web at http://thomas.loc.gov/cgi-bin/query/D?c105:20:./temp/~c105AmWsxV:e99622:.

Briefly, the applicability of the restrictions upon a transmitting organization depends upon whether the transmitting organization had been offering its webcasts on or before July 31, 1998 using the same medium of transmission after that date that it was using before. If that is the case, then a compulsory license for a subscription transmission would be available at a rate set under the auspices of the U.S. Librarian of Congress if:

"(i) the transmission is not part of an interactive service;

(ii) except in the case of a transmission to a business establishment, the transmitting entity does not automatically and intentionally cause any device receiving the transmission to switch from one program channel to another;

(iii) the transmission of the sound recording is accompanied by the information encoded in that sound recording, if any, by or under the authority of the copyright owner of that sound recording, that identifies the title of the sound recording, the featured recording artist who performs on the sound recording, and related information, including information concerning the underlying musical work and its writer;

(iv) the transmission does not exceed the sound recording performance complement; and

(v) the transmitting entity does not cause to be published by means of an advance program schedule or prior announcement the titles of the specific sound recordings or phonorecords embodying such sound recordings to be transmitted; . . . ."

If, however, the transmitting organization had not been offering webcasts on or before July 31, 1998 or had been using a medium of transmission before that date different from that which it was using after that time, then a compulsory license for a subscription transmission would be available at a rate set under the auspices of the U.S. Librarian of Congress if the transmissions meet the same conditions as those required for anyone desiring to make "eligible nonsubscription transmissions." The conditions necessary for eligible nonsubscription transmissions to qualify for a compulsory license under the proposed DM Act are set forth below.

Non-Subscription Transmissions

Question 9: What licenses are required from the owner of a song to permit a digital transmission that does not result in a digital phonorecord delivery of the song, is not part of an interactive service, and constitutes a non-subscription transmission?

Again, the distinction between subscription and non-subscription services is not relevant to licensing the underlying song. The person making such digital transmissions must obtain a blanket license from the applicable performance rights society (e.g., ASCAP, BMI or SESAC).

It is worth noting, at this juncture, that if the DM Act is passed in the form currently proposed by the House (i.e., eliminating the exemption for non-interactive, non-subscription transmissions), then the performance rights societies, and their music publisher and songwriter members, could suffer a significant reduction in performance royalty income, arising from the fewer number of web radio stations engaging in non-interactive, non-subscription web transmissions.

Question 10: What licenses are required from the owner of a recording to permit a digital transmission that does not result in a digital phonorecord delivery of the recording, is not part of an interactive service, and is not part of a subscription service?

As noted above, the answer to this question depends entirely on whether the DM Act is passed in the form currently proposed by the House, a form which eliminates the exemption currently enjoyed by non-interactive, non-subscription transmissions and replaces it with a compulsory license in favor of a limited class of webcasters.

Answer to Question 10 Under the 1995 Act

In July, 1998, the RIAA had been taking the position that the Copyright Act, as amended by the 1995 Act, provided no such exemption. Because the fate of the DM Act remains unclear, it is worth analyzing the RIAA position some detail.

According to the RIAA, a license (i.e., permission) is required from the owner of the sound recording to effect a non-interactive, non-subscription transmission over the web, and that the granting of a license is completely voluntary - that is, a license that may be issued on any negotiated terms and not subject to any statutory or compulsory provision that would require record companies to issue such a license at any specified rate, or even at all. This position was espoused in detail by the Steve Marks, deputy general counsel of the RIAA in a letter to me dated July 1, 1998, and which may be found at http://www.kohnmusic.com or http://www.mp3.com. By contrast, the right answer, I submit, is simply this: under the 1995 Act, no license from the sound recording owner is required to effect such transmissions.

As we have seen, the 1995 Act established a continuum of rights, from those transmissions that are likely to replace the sale of records (or digital phonorecord deliveries) to those that are not likely to replace such sales (such, as radio broadcasts and radio-like webcasts). Those digital transmissions that were deemed to pose no more risk of replacing records than radio broadcasts were granted an exemption from the limited performance right granted under the new Section 106(6) of the Copyright Act. This exemption is set forth in Section 114(d) of the Copyright Act, which may be found on the web at, http://lcweb.loc.gov/copyright/title17/1-114.html. If the transmission fits within any of the categories of Section 114(d), it is considered "exempt," which means that no license is required from the owner of the sound recording to effect the transmission.

The greater part of Section 114(d) is intended to make it clear that public performances of sound recordings over the radio continue to be free of any requirement of a license from the owners of the sound recordings, even though such performances are by means of digital audio transmissions, provided they are not part of an interactive service, and are made on a non-subscription basis.

The part of Section 114(d) relevant to webcasters who wish to make non-interactive, non-subscription transmissions of sound recordings is as follows:

"(d) LIMITATIONS ON EXCLUSIVE RIGHT- Notwithstanding the provisions of section 106(6)-

(1) EXEMPT TRANSMISSIONS AND RETRANSMISSIONS- The performance of a sound recording publicly by means of a digital audio transmission, other than as a part of an interactive service, is not an infringement of section 106(6) if the performance is part of-

(A)(i) a nonsubscription transmission other than a retransmission;

. . .

(C) a transmission that comes within any of the following categories-

(i) a prior or simultaneous transmission incidental to an exempt transmission, such as a feed received by and then retransmitted by an exempt transmitter: Provided, That such incidental transmissions do not include any subscription transmission directly for reception by members of the public;

. . .

(iii) a retransmission by any retransmitter . . . of a transmission by a transmitter licensed to publicly perform the sound recording as a part of that transmission, if the retransmission is simultaneous with the licensed transmission and authorized by the transmitter; . . . "

There is no question, in my view, that a web radio station which transmits popular sound recordings on a non-subscription basis is engaged in "a nonsubscription transmission other than a retransmission." Nevertheless, in an attempt to refute what appears to be a rather clear and unambiguous exemption for non-interactive, non-subscription transmissions, the RIAA offered in its

July 1 letter two arguments, one that may reflect a misunderstanding of how the Internet operates and another that actually drives home the very point they are trying to refute: First, the RIAA says:

"You argued that the retransmissions made during the course of sending music to the end user would be covered by the exemption in section 114(d)(1)(C)(i), which exempts "a prior or simultaneous transmission incidental to an exempt transmission.

However, the retransmissions that occur during the course of an Internet transmission cannot in any way be characterized as `prior or simultaneous' because they obviously occur after the initial transmission. The example set forth in the exemption itself - `a feed received by and then retransmitted by an exempt transmitter' - is also very different from the transmissions and retransmissions caused by a webcaster."

It is reasonable to ask, what support is there for the notion that an Internet transmission cannot be characterized as "a simultaneous transmission incidental to an exempt transmission"? Though the additional phrase, "such as a feed received by and then retransmitted by an exempt transmitter" is merely an example of such a simultaneous transmission, why would not an Internet transmission be akin to such a transmission?

When a web radio station webcasts a sound recording, the recording is sent bit-by-bit in something called a data stream, which consists of packets of data. Appended to these packets are "headers" which contain information, known as protocol information, which includes information about the intended destination of the data stream. It is analogous to sending a book one line at a time to a single addressee, but in different envelopes, with information indicating which line and page it is from, for purposes of later assembly. This data stream is sent over telephone lines to a device called a "router," and as the data stream passes through the router, the router looks at the destination address set forth in the protocol headers and sends or "routes" the stream on its way, through the best route available, to the destination address. The data stream may pass through anywhere from 2 to 10 or so routers in the course of its march to a destination, such as an Internet browser on a personal computer, where it is reassembled in the proper order for viewing or listening by the user.

This all occurs simultaneously, and arguably without any form of "retransmission." However, let's assume the passing of the data stream from one router to the next constitutes a series of retransmissions. In the paragraph that preceded the RIAA's comment about 114(d)(1)(c)(i), the RIAA said the following:

"Even if GoodNoise's initial transmission may be exempt under section 114(d)(1)(A)(i), the many retransmissions that follow and are necessary to enable the end-user to receive the music are not exempt. If GoodNoise's initial transmission was licensed, the subsequent retransmissions `through to the listener' would be exempt under section 114(d)(1)(C)(iii). Similarly, when a subscription music service obtains a license, the retransmissions necessary to deliver music to a listener are exempt only because of section 114(d)(1)(C)(iii). However, in the absence of a license, these retransmissions are infringing."

In the above paragraph, the RIAA directly refuted their own argument. Section 114(d)(1)(C)(iii) exempts "(iii) a retransmission by any transmitter . . . of a transmission by a transmitter licensed to publicly perform the sound recording as part of that transmission, if the retransmission is simultaneous with the licensed transmission and authorized by the transmitter."

In other words, the RIAA first informs us that a subscription service which makes transmissions over the web will find that the retransmissions it makes exempt under Section 114(d)(1)(c)(iii) above. Since that Section only exempts retransmissions that are "simultaneous with" the licensed transmissions, the RIAA is admitting that digital transmissions - whether on a subscription or non-subscription basis - over the Internet are "simultaneous"!

In other words, webcasts over the Internet on a subscription basis, according to the RIAA, necessarily involve the propagation of simultaneous transmissions. Of course, the only difference, under the law, between a subscription transmission and a non-subscription transmission concerns whether the recipient is paying for the transmission - the difference has nothing to do with how they are transmitted or retransmitted. The unavoidable conclusion is that simultaneous transmissions incidental to non-interactive, non-subscription webcasts that are exempt under 114(d)(1)(A)(i) are exempt under 114(d)(1)(c)(i) (provided, of course, that "such incidental transmissions do not include any subscription transmission directly for reception by members of the public").

Accordingly, plain logic demands that non-interactive, nonsubscription webcasts are exempt under 114(d)(1)(A)(i) and any simultaneous transmissions incidental to them are also exempt under 114(d)(1)(C)(i), under the 1995 Act.

But we have more than logic to support this view; we have common sense and what appears to be the plain rationale behind the 1995 Act: namely, the notion that Congress was trying to provide a means of compensation to owners of sound recordings to the extent, and only to the extent, there is a high or moderate likelihood that record sales would be replaced.

As we have seen above, the distinctions between analog audio transmissions and digital audio transmissions, between digital audio transmissions that constitute digital phonorecord deliveries and those that do not, between interactive and non-interactive services, between subscription and non-subscription transmissions, and between voluntary and compulsory subscription services, all point to a continuum aimed at finding a balance between maintaining the status quo with respect to broadcast and broadcast-like transmissions of sound recordings and protection against the loss of sales from transmissions that may tend to replace traditional record sales and sales of digital phonorecord deliveries.

If non-interactive, non-subscription webcasts were intended to be subject to voluntary licensing (i.e., licensing which may be made at any price or no price within the complete discretion of the record company), then why would Congress have made certain kinds of subscription transmissions subject to compulsory licensing and left non-subscription transmissions subject to a full voluntary license by record companies? Would not Congress have had even a greater reason to make non-subscription transmissions subject to compulsory licensing? Would Congress have given exemptions allowing owners of radio stations complete freedom to effect transmissions of their broadcasts over the Internet, but refuse to allow entrepreneurs with fewer resources conduct the same activity over the Internet on a level playing field with the broadcasters?

Would ASCAP and BMI have allowed a substantial source of music publishing income, income which they are actively seeking from sites which webcasts popular recordings, just vanish? Could we not infer from ASCAP's and BMI's active licensing of web sites which webcast popular recordings that the music industry has already operating under the assumption that this activity was exempt under the 1995 Act?

These are some of the questions that would have to be answered should the law be interpreted to not exempt non-interactive, non-subscription webcasts and the simultaneous transmissions incidental to them.

The RIAA's argument that legislative history suggests another result is questionable at best. They suggested that earlier versions of the bill that became the 1995 Act contained an outright exemption for "a non-subscription transmission" that was not "part of an interactive service," and said that before enactment that provision was replaced by a more refined Section 114(d)(1)(A). But, the final bill did maintain the outright exemption for non-subscription transmissions and the entire section providing the exemption continued to contain the condition that the exempt transmissions must not be "part of an interactive service." What the revision did was to clarify that retransmissions could not be used to circumvent the exemptions. That is, for example, you could not retransmit an exempt transmission as a subscription transmission and circumvent the requirement of obtaining a voluntary or compulsory license for the retransmission.

As I suggested above, to be consistent with the continuum established by Congress - one that was intended to strike a balance between maintaining the status quo with respect to broadcast and broadcast-like transmissions of sound recordings, on the one hand, and the protection against the loss of sales from transmissions that may replace traditional record sales and sales of digital phonorecord deliveries, on the other - non-interactive, non-subscription transmissions either would have been made exempt or would have been made subject to a compulsory license. It would not have been subject to a negotiated or "voluntary" license.

Thus, the RIAA's argument that under the 1995 Act no exemption exists for non-interactive, non-subscription transmissions is clearly wrong, not only from its clear statutory interpretation but from a public policy perspective, as well. Further, to the extent the RIAA had a hand in the drafting of the recent amendments which have been proposed to eliminate the exemption, it would appear such efforts would serve as an admission on the RIAA's part that their previous position was severely mistaken.

Answer to Question 10 Under Proposed Digital Millennium Copyright Act - Compulsory Licensing for Non-subscription Transmissions

As a result of last minute lobbying by the RIAA and DiMA described above, the House of Representatives recently passed an amendment to its version of the proposed Digital Millennium Copyright Act. That amendment would (1) eliminate the exemption for webcasters set forth in Section 114(d)(1) of the Copyright Act, (2) add a compulsory license scheme for limited kinds of "eligible" transmissions (i.e., those made by webcasters having the profile of members of DiMA), and (3) add language to Section 114 that would make it clear the "eligible" webcasters could make ephemeral recordings of sound recordings for the purposes of facilitating their webcasts. This section will summarize the first of those two changes, and the affect on ephemeral recordings will be discussed in the following section.

Exemption Eliminated. The proposed bill by the House eliminates the current Section 114(d)(1)(A), which contains an exemption (from a sound recording owner's exclusive rights) for a "nonsubscription transmission other than a retransmission." The proposed law would now merely preserve the exemption for "a nonsubscription broadcast transmission." A "broadcast transmission" is defined as "a transmission made by a terrestrial broadcast station licensed as such by the Federal Communications Commissions." Thus, under the House proposal, to make exempt non-interactive, nonsubscription transmissions over the Internet, a webcaster would have to buy a radio station from which to originate those transmissions.

Limited Compulsory License. To placate the members of DiMA (who agreed to help the RIAA lobby to eliminate the exemption for nonsubscription transmissions), the House bill proposes a new section under the heading, "Statutory Licensing of Certain Transmissions." This section provides for a compulsory license for eligible nonsubscription transmissions. These "eligible" transmissions are defined as follows:

"An `eligible nonsubscription transmission' is a noninteractive, nonsubscription transmission made as part of a service that provides audio programming consisting, in whole or in part, of performances of sound recordings, including retransmissions of broadcast transmissions, if the primary purpose of the service is to provide to the public such audio or other entertainment programming, and the primary purpose of the service is not to sell, advertise, or promote particular products or services other than sound recordings, live concerts, or other music-related events."

Those desiring to make "eligible nonsubscription transmissions" may thus compel the record companies to provide them with a license to do so, provided they comply with certain restrictions on how they make those transmissions and pay a fee that will be set under procedures to be established by the U.S. Librarian of Congress.

To be eligible for the compulsory license, transmitting organizations who make "eligible

nonsubscription transmissions" need comply with certain restrictions, including those imposed upon organizations who desire to engage in making subscription transmissions under a compulsory license (under the 1995 Act). These proposed restrictions may be found at: http://thomas.
loc.gov/cgi-bin/query/D?c105:20:./temp/~c105AmWsx
V:e99622.

Briefly, the applicability of the restrictions upon a transmitting organization depends upon whether the transmitting organization had been offering its webcasts on or before July 31, 1998 using the same medium of transmission after that date that it was using before. If that is the case, then a compulsory license for a subscription transmission would be available at a rate set under the auspices of the U.S. Librarian of Congress under the same conditions as though they were eligible nonsubscription transmissions. These conditions are:

"(i) the transmission is not part of an interactive service;

(ii) except in the case of a transmission to a business establishment, the transmitting entity does not automatically and intentionally cause any device receiving the transmission to switch from one program channel to another;

(iii) the transmission of the sound recording is accompanied by the information encoded in that sound recording, if any, by or under the authority of the copyright owner of that sound recording, that identifies the title of the sound recording, the featured recording artist who performs on the sound recording, and related information, including information concerning the underlying musical work and its writer; . . . . "

If, however, organization was not offering its webcasts on or before July 31, 1998 or was doing so, but is now using a different means of transmission than before, then a compulsory license, at a rate set under the auspices of the U.S. Librarian of Congress, for an eligible nonsubscription transmission (and non-exempt subscription transmissions) would be available if, in addition to restrictions (i) through (iii) above:

"(iii) the transmission does not exceed the sound recording performance complement (defined above), except that this requirement shall not apply in the case of a retransmission of a broadcast transmission if the retransmission is made by a transmitting entity that does not have the right or ability to control the programming of the broadcast station making the broadcast transmission, unless the broadcast station makes broadcast transmissions-

(I) in digital format that regularly exceed the sound recording performance complement; or

(II) in analog format, a substantial portion of which, on a weekly basis, exceed the sound recording performance complement;

Provided, however, That the sound recording copyright owner or its representative has notified the transmitting entity in writing that broadcast transmissions of the copyright owner's sound recordings exceed the sound recording complement as provided in this clause;

(iv) the transmitting entity does not cause to be published, or induce or facilitate the publication, by means of an advance program schedule or prior announcement, the titles of the specific sound recordings to be transmitted, the phonorecords embodying such sound recordings, or, other than for illustrative purposes, the names of the featured recording artists, except that this clause does not disqualify a transmitting entity that makes a prior announcement that a particular artist will be featured within an unspecified future time period and, in any 1-hour period, no more than 3 such announcements are made with respect to no more than 2 artists in each announcement;

(v) the transmission is not part of-

(I) an archived program of less than 5 hours duration;

(II) an archived program of greater than 5 hours duration that is made available for a period exceeding 2 weeks;

(III) a continuous program which is of less than 3 hours duration; or

(IV) a program, other than an archived or continuous program, that is transmitted at a scheduled time more than 3 additional times in a 2-week period following the first transmission of the program and for an additional 2-week period more than 1 month following the end of the first such 2-week period;

(vi) the transmitting entity does not knowingly perform the sound recording in a manner that is likely to cause confusion, to cause mistake, or to deceive, as to the affiliation, connection, or association of the copyright owner or featured recording artist with the transmitting entity or a particular product or service advertised by the transmitting entity, or as to the origin, sponsorship, or approval by the copyright owner or featured recording artist of the activities of the transmitting entity other than the performance of the sound recording itself;

(vii) the transmitting entity cooperates to prevent, to the extent feasible without imposing substantial costs or burdens, a transmission recipient or any other person or entity from automatically scanning the transmitting entity's transmissions together with transmissions by other transmitting entities to select a particular sound recording to be transmitted to the transmission recipient;

(viii) the transmitting entity takes reasonable steps to ensure, to the extent within its control, that the transmission recipient cannot make a phonorecord in a digital format of the transmission, and the transmitting entity takes no affirmative steps to cause or induce the making of a phonorecord by the transmission recipient;

(ix) phonorecords of the sound recording have been distributed to the public in the United States under the authority of the copyright owner or the copyright owner authorizes the transmitting entity to transmit the sound recording, and the transmitting entity makes the transmission from a phonorecord lawfully made under this title;

(x) the transmitting entity accommodates and does not interfere with the transmission of technical measures that are widely used by sound recording copyright owners to identify or protect copyrighted works, and that are technically feasible of being transmitted by the transmitting entity without imposing substantial costs on the transmitting entity or resulting in perceptible aural or visual degradation of the digital signal; and

(xi) in the case of an eligible nonsubscription transmission, the transmitting entity identifies the sound recording during, but not before, the time it is performed, including the title of the sound recording, the title of the phonorecord embodying such sound recording, if any, and the featured recording artist in a manner to permit it to be perceived by the transmission recipient, except that the obligation in this clause shall not take effect until 1 year after the date of the enactment of the Digital Millennium Copyright Act."

A transmitting organization who makes eligible nonsubscription transmissions that comply with the above requirements may apply for a compulsory license to make those transmissions and pay the fee that will be established under a process regulated by the U.S. Librarian of Congress.

Note, under the proposed DM Act, the compulsory license does not inure to the benefit of any webcaster, only those whose "primary purpose" is "not to sell, advertise, or promote particular products or services other than sound recordings, live concerts, or other music-related events." Anyone else must obtain a license from the owners of the sound recordings, which may be offered at any negotiated fee or not at all, by the record companies. Not surprisingly, the compulsory license appears to be available only to companies having the business profile of the members of DiMA.

Fees. It is interesting to note that when the Librarian of Congress called for comments on the proper statutory rate to be established for subscription transmissions under the 1995 Act, the RIAA requested a royalty rate of 41.5% of the digital music service's gross revenues, with a flat minimum fee! Representatives for the subscription transmission organizations requested royalty rates ranging from 1/2% to 2%, and they opposed the setting of a flat minimum fee. The Copyright Royalty Arbitration Panel that presided over the matter determined that the subscription services pay a royalty of 5% of their gross revenues, with no minimum license fee. The RIAA appealed that ruling and succeeded in convincing the Librarian of Congress to set aside the Panel's ruling.

The Librarian of Congress considered the rates that broadcasters pay for licenses of public performances of musical compositions (i.e., to ASCAP, BMI and SESAC), because these rates represent an actual marketplace value for a public performance right in sound recordings. The RIAA had asked for a rate that was greater than the rate paid to ASCAP, BM and SESAC, but the Librarian of Congress concluded that the value of the public performance right in the sound recording does not exceed the value of the public performance right in the underlying musical work. Unfortunately, because the actual license fees paid for the public performance of the musical works is subject to a protective order, the statutory rate for the performance sound recordings by subscription services has not been publicly disclosed.

Ephemeral Recordings

The copyright law, under Section 106(1), provides a copyright owner with the exclusive right to make copies of his copyrighted work. However, transmitting organizations, such as radio and television broadcasters, have long found it necessary to make copies of the copyrighted works they transmit, typically by making a tape of a work that was first provided in another medium (such as a CD), to facilitate the transmission.

Unless there were an exemption from the copyright owner's exclusive right, a transmitting organization who makes such copies to facilitate its legitimate transmissions would risk being sued for copyright infringement. For that reason, the Copyright Act provides an exemption for what are called ephemeral recordings, and that exemption is set forth in Section 112 as follows:

"Notwithstanding the provisions of section 106, . . . it is not an infringement of copyright for a transmitting organization entitled to transmit to the public a performance or display of a work, under a license or transfer of the copyright or under the limitations on exclusive rights in sound recordings specified by section 114(a), to make no more than one copy or phonorecord of a particular transmission program embodying the performance or display, if -

(1) the copy or phonorecord is retained and used solely by the transmitting organization that made it, and no further copies or phonorecords are reproduced from it; and

(2) the copy or phonorecord is used solely for the transmitting organization's own transmissions within its local service area, or for purposes of archival preservation or security; and

(3) unless preserved exclusively for archival purposes, the copy or phonorecord is destroyed within six months from the date the transmission program was first transmitted to the public."

The RIAA has taken the position that the foregoing exemption only applies to:

"reproductions embodying performances made under license, transfer of copyright ownership or the Section

114(a) exception to the general performance right of Section 106(4). It does not apply to reproductions embodying performances made by means of digital audio transmissions, which are subject to the performance right of Section 106(6)."

That argument is refuted easily by pointing out that Section 112 begins, "Notwithstanding the provisions of section 106 . . ." - meaning, all of Section 106, not just Section 106(4), but all of 106.

The RIAA has also asserted that the fact that Congress, when it enacted 1995 Act, did not amend Section 112 at the same time is "evidence that Congress intended not to extend the ephemeral recording exemption to digital audio transmissions." Of course, the same omission is also evidence that Congress thought the ephemeral recording exemption certainly did apply to webcasters and, therefore, felt no need to add anything to Section 112 to that effect. Moreover, why would

Congress have created an exemption for non-subscription transmissions, but leave no practical way for anyone to use the exemption?

Finally, the RIAA has taken the position that "even if Section 112 is applicable to digital audio transmissions, the copies by this section are to be used only for transmissions within the transmitting organization's `local service area.'"

The legislative history of the Copyright Act defines the term "local service area" in only three contexts: in the case of a television broadcast station, in the case of a low power television station, and in the case of a radio broadcast station. It does not refer to Internet web sites, naturally, because they did not exist in 1976 when the Copyright Act was passed. But this does not mean that web sites are not covered; it only means that the extent of the local service area is not defined. Where they are defined, the legislative history seems to contemplate that transmissions may be sent by wire beyond the place where the primary broadcast transmission takes place. In the case of television stations, for example, the local service area comprises the area in which such station is entitled to insist upon its signal being transmitted by a cable system pursuant to the rules and regulations of the Federal Communications Commissions.

Thus, the term "local service area" does not confine the transmission to a service area which is "local," but, in the case of television radio stations licensed by the FCC, such transmissions are confined to those areas permitted by the FCC. Since web stations are not so regulated, the local service area appears to be throughout the Internet, but perhaps not beyond, such as through analog radio broadcasts. The local services area of a short wave broadcast is worldwide, no different from a webcast, but I would be surprised to learn if broadcasters have been operating under the assumption that the ephemeral recording exemption applies only to small regional or "local" broadcasters.

Granted, Section 112 only permits the making of "no more than one copy or phonorecord of a particular transmission program." This, according to the RIAA, makes is problematic for webcasters who wish to install copies on multiple servers. While this may be problematic for large, commercial webcasters, one copy would certainly be sufficient for the many thousands of small web sites who wish to take advantage of the exemption provided in Section 114(d)(1) and offer non-interactive, non-subscription transmissions.

As a result of negotiations between the RIAA and the National Association of Broadcasters (NAB), the Senate version of the proposed Digital Millennium Copyright Act (Senate Bill 2037) would amend Section 112 to provide a specific exemption for broadcast radio or television stations licensed by the FCC who provide "a performance of a sound recording in a digital format on a nonsubscription basis." According to information obtained by the Digital Media Association (DIMA), the NAB initially proposed that the ephemeral recording exemption be revised to make it clear it applied to all lawful digital transmissions, but the RIAA had explicitly demanded that the exemption not apply to cable, satellite or Internet broadcasters. Should the bill pass as so amended, the RIAA could take the position that by only exempting broadcast radio and television stations, the legislation should now be construed as not exempting webcasters. Webcasters might then need to rely on the less specific exemption offered by the "fair use" provisions set forth in Section 107 of the Copyright Act.

As a result of more recent negotiations between the RIAA and DiMA, discussed at the outset of this article, the House version of the DM Act would amend Section 112 to include provisions for the compulsory license of ephemeral recordings that are made by transmitting organizations entitled to transmit public performances of sound recordings under Section 114 (discussed above). A statutory rate or license fee for such copies would be set under a procedure established by the Librarian of Congress.

Should the Exemption for Nonsubscription Transmissions Originated by Webcasters be Eliminated?

The question whether the exemption for non-interactive, non-subscription transmissions should be eliminated is a relevant one, unless and until the President signs into law the Digital Millennium Copyright Act, in the form currently proposed by the House of Representatives. From the record companies perspective, the answer to that question is clearly yes. Nevertheless, there may be still be good reasons to either maintain the exemption or broaden the types of transmissions that are subject to a compulsory license.

First, music publishers and songwriters have a direct interest in promoting as many non-interactive, non-subscription web radio stations as possible, allowing them to issue many more blanket licenses for the use of music on these sites. Presumably, Congress took into consideration the interests of the performance rights societies and their members when determining the kinds of transmissions which should be considered exempt, which should be subject to a compulsory license, and which should be subject to a voluntary license. Given the particular circumstances of the amendment's passage (see above), it is not likely the Congress took anything into consideration, except that fact that two powerful lobbying organizations came to an agreement on the subject.

Second, under Section 114(d), broadcast radio stations who desire to webcast their on-the-air broadcasts of sound recordings over the Internet appear to remain exempt from licensing requirements. Why should webcasters who don't own radio stations be put at a competitive disadvantage to radio stations? It appears that any large webcast company could use its size and resources to purchase FCC licensed radio stations in order to webcast sound recordings over the web without payment to record companies.

Similarly, what accounts for the distinction between those making "eligible" nonsubscription transmissions and those who make ineligible ones? Looking down the list of members of DiMA, its striking that all of them would appear to be engaging in eligible nonsubscription transmissions, yet that organization appeared instrumental in eliminating the exemption for all other kinds of webcasters.

Finally, assuming that all non-subscription transmissions (including broadcast transmissions) were subject to a compulsory license, a level playing field would only result if the compulsory license was as easy to obtain and administer as the performance licenses that are offered by ASCAP or BMI. If, on the other hand, anything akin to the requirements of the compulsory license for subscription transmissions is instituted for non-subscription transmissions - for "Interim Regulations on Notice and Recordkeeping for Digital Subscription Transmissions," Docket No. RM 96-3B, see http://lcweb.loc.gov/ copyright/fedreg/96-3b.html - only large, well financed web sites will, as a practical matter, have access to sound recordings for non-subscription transmissions.Perhaps the ideal of a level playing field is not politically possible today, given the tenacity of the lobbying organizations involved, the complexities of the issues, and the amount of money which is at stake.

Certainly, the new technologies provide more than enough challenges to the music and recording industries, and giving the content creators the benefit of the doubt, at least at the current time, may be just what is needed to maintain the incentives necessary to promote the creation of creative works of authorship. In the end, however, the ideal of a level playing field may best be accomplished by the granting of a general public performance right in sound recordings coupled with a fairly easy to administer compulsory license, such as those offered by ASCAP and BMI.

Conclusion

Before gently exiting this round of the debate, I feel compelled to respond to some personal remarks that the RIAA made in their letter to me of July 1. The RIAA accused me of being disingenuous for writing "in the guise of academia" without pointing out the fact that GoodNoise has a "vested interest" in this debate. I am certain that readers of my original article were not confused about my association with GoodNoise, as the article specifically displays that association clearly, with a link to the GoodNoise website, where my company's intentions to operate a web radio station is stated on the first page. If a charge of disingenuousness is to be made, it may be appropriate to ask why an organization like the RIAA would publicly maintain the position that the law does not exempt non-subscription transmissions while privately lobby to change the law to remove that exemption, and why in face of that exemption, they attempted to obliterate the application of the ephemeral recording exception, the only means for webcasters to practically take advantage of it.

In addition, it is certainly true that GoodNoise has a vested interest in this debate, but not for the reason proffered by the RIAA in their letter. GoodNoise is a record company which is primarily focused on selling recordings by digital phonorecord delivery; its intention to provide non-subscription webcasts is merely an incidental adjunct to its web site. More important, as an owner of sound recordings, it is certainly in GoodNoise's interest for there to be a full general performance right in sound recordings. Nevertheless, GoodNoise considers itself a responsible member of the web community, and when its management reviewed the RIAA's original letter to webcasters, they were astounded by what was either a gross misunderstanding of the law or a deliberate attempt to deceive the web community about the scope of the rights of owners of sound recordings. Accordingly, they asked me to publicly express my personal views on the subject, notwithstanding GoodNoise's vested interest in requiring licenses for non-subscription transmissions.

With that out of the way, I now submit the above questions, and the answers I have been able to give, for public and professional consideration.

Bob Kohn is Chairman of the Board of GoodNoise Corporation, The Internet Record Company (www.goodnoise.com), a leading provider of digital music recordings direct to consumers over the Internet. He is also co-author of the 1,500 page book, Kohn On Music Licensing (www.kohnmusic.com), a practical guide to the business and legal aspects of the music industry, which he wrote with his father, Al Kohn, retired vice president of licensing for Warner Bros. Music. Prior to GoodNoise, Mr. Kohn served as chief legal counsel for Pretty Good Privacy, Inc., Borland International, Inc., and Ashton-Tate Corporation. Prior to Ashton-Tate, he was an attorney at the Beverly Hills law offices of Rudin & Richman, an entertainment law firm whose clients included Frank Sinatra, Liza Minelli, Cher, and Warner Bros. Music. He also served as Associate Editor of the Entertainment Law Reporter, for which he continues to serve as a member of its Advisory Board. After graduating from Loyola Law School in Los Angeles, Mr. Kohn became a member of the California Bar in 1981. He is Adjunct Professor of Law at Monterey College of Law, and lives with his family in Pebble Beach, California.

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http://www.kohnmusic.com. We look forward to helping everyone sort through these interesting legal issues.
[ELR 20:4:4]

WASHINGTON MONITOR

Sony Corporation agrees to pay million-dollar penalty, and to comply with cease-and-desist order, on account of allegedly inadequate disclosures to SEC and shareholders prior to 1994 write-down of $2.7 billion in Sony Pictures goodwill

Sony Corporation has agreed to pay a $1 million civil penalty in order to settle a case filed against it by the U.S. Securities and Exchange Commission. The SEC's complaint alleged that during the four months preceding Sony's November 1994 write-down of approximately $2.7 billion of goodwill associated with the acquisition of Columbia/Tri-Star Pictures, which became its Sony Pictures subsidiary, Sony made inadequate disclosures about the nature and extent of Sony Pictures' net losses and their impact on the consolidated results Sony was reporting.

The allegedly inadequate disclosures were contained in reports Sony filed with the SEC which included copies of quarterly earnings releases issued by Sony, and in the "Management's Discussion and Analysis" sections of Sony's annual reports to shareholders and the SEC.

The SEC also faulted Sony for reporting the combined results of Sony Pictures and Sony's profitable music business as a single "entertainment" segment, rather than reporting Sony Pictures' financial results as a separate industry segment, which had the effect of obscuring the losses sustained by Sony Pictures.

Though Sony settled the case and agreed to pay the million-dollar penalty, it did not admit or denying the allegations of the SEC's complaint.

The SEC also initiated an administrative proceeding against Sony, based on the same allegations, which was settled with a cease and desist order. In this proceeding, the SEC also found that Sumio Sano was a cause of Sony's violations. Sano was a director of Sony and the General Manager of its Capital Market and Investor Relations Division.

The cease and desist order prohibits Sony and Sano from committing or causing violations of federal securities law. It specifically orders Sony: to engage an independent auditor to examine the "Management's Discussion and Analysis" sections of its annual reports for the fiscal year ending March 31, 1999; to adopt and implement procedures and practices to ensure that Sony's Chief Financial Officer will be designated as the officer primarily responsible for ensuring that Sony's public financial disclosures are accurate and otherwise in compliance with applicable legal and accounting requirements; and to continue to apply FAS 131, which provides guidance relating to industry segment reporting, for purposes of reporting its financial results.

In settling the administrative proceeding, Sony and Sano consented to issuance of the cease and desist order without admitting or denying the assertions made in that order.

SEC v. Sony Corporation, Case No. 1:98CV01935, D.D.C.; Litigation Release No. 15832 (August 5, 1998) (available at the SEC's web site, http://www.sec.gov) [ELR 20:4:24]

Copyright Office publishes ninth list of foreign works whose once-expired copyrights have been restored

The United States Copyright Office has published its ninth list of foreign works whose owners have filed Notices of Intent to Enforce Restored Copyrights. The foreign works in question are those that once were in the public domain in the United States, but whose copyrights were restored on January 1, 1996, as a result of Congress' enactment of a new section 104A of the Copyright Act as required by the Uruguay Round Agreements Act.

The deadline for filing Notices of Intent to Enforce was December 31, 1997 for works whose copyrights were restored on January 1, 1996, and this ninth list covers all works for which such Notices were filed by that date.

The deadline for filing Notices for works from Angola is November 30, 1998, and or works from Mongolia is January 28, 1999. The only other works that may become eligible thereafter would be works from countries that become new adherents to the Berne Convention, new members of the World Trade Organization, or designated in a Presidential proclamation. The Copyright Office will publish further lists, only if Notices for works from such countries actually are filed.

Copyright Restoration of Works in Accordance With the Uruguay Round Agreements Act, Library of Congress, Copyright Office, 63 Federal Register 43930 (Aug. 14, 1998) [ELR 20:4:24]

RECENT CASES

Turner Entertainment has exclusive right to distribute "Gone with the Wind"; although heirs of David Selznick have beneficial interest in movie's copyright, they do not have right to authorize others to exploit it, federal District Court rules

When Turner Broadcasting bought MGM in 1986, one of the assets it acquired was most of the copyright to "Gone with the Wind." That classic movie was produced, almost a half century earlier, by David O. Selznick through his independent production company Selznick International Pictures, Inc. Financing and Clark Gable were provided by MGM, and in return, MGM acquired a 25% interest in the movie and the exclusive right to distribute it until 1946.

Selznick International was liquidated in 1940 and its assets - including its interest in the copyright to "Gone with the Wind" - were distributed to its shareholders. Before its exclusive distribution rights expired in 1946, MGM acquired most - but not all - of the interests in the movie's copyright from those who then owned them. However, some of David Selznick's heirs retained their interests in the copyright. So even after its exclusive rights expired in 1946, MGM continued to distribute the movie, and continued to account to Selznick's heirs, just as it had in the past.

This arrangement seems to have worked fine for a half century or so. But eventually, Selznick's heirs filed suit against Turner contending, among other things, that as co-owners of the movie's copyright, they too had the right to exploit and distribute "Gone with the Wind" - that Turner, in other words, did not have the exclusive right to do so. Turner of course contended otherwise.

And in response to cross-motions for summary judgment, federal District Judge Kim Wardlaw has agreed with Turner.

Turner contended that it retained the exclusive right to distribute the movie for three reasons. First, it argued that the original contract remained in effect, because Selznick's heirs had continued to request accountings pursuant to its terms and because Turner and the heirs had continued to treat the contract as though it were in effect. Judge Wardlaw was not persuaded by this argument, however, because by its own terms, MGM's exclusive right to distribute the movie expired in 1946.

Turner also argued that since it and the heirs had continued to treat the contract as though it were in effect, an implied contract existed between them whose terms were the same as the original contract. Judge Wardlaw rejected this argument too, for two reasons.

Their continued reliance on the terms of the original agreement "may simply be a matter of convenience and does not demonstrate a mutual intent to enter into an implied contract." Moreover, even if they had entered into an implied contract, that contract had no particular term and thus could be terminated by the heirs on reasonable notice.

Turner ultimately prevailed with its third argument. The copyright to "Gone with the Wind" was renewed in 1967 by MGM in its own name; the heirs did nothing to renew their interest. The heirs did not forfeit their interest by failing to renew. But as a matter of copyright law, when only one co-owner renews a copyright, that owner "takes legal title to the renewal copyright as constructive trustee on behalf of the non-renewing co-owner." This made MGM, and then Turner as its successor, the sole owner of legal title to the renewal term of "Gone with the Wind," on its own behalf and as constructive trustee for Selznick's heirs. The heirs are now "beneficial owners" of their interests in the movie's copyright. But Judge Wardlaw concluded "that well-established principles of trust law dictate that the beneficial owner may not transfer legal title to any or all of the exclusive rights of copyright ownership. Traditional trust principles provide that the trustee has the exclusive right to sell or lease the trust res, subject to the care and loyalty of the fiduciary and a duty of accounting to the beneficiaries."

Though this result seems technical, Judge Wardlaw explained that there is clear logic to it. "Where there is only one claimant listed on the renewal application, a purchaser of exclusive rights from the claimant cannot, by looking at the renewal application, be assured that he has actually obtained the exclusive rights in the work if it is possible that someone other than the listed claimant has legal rights in the work." Therefore, the judge held that "because the plaintiffs' names do not appear on the renewal certificate, they may not exercise the nonexclusive ownership rights of co-owners of legal title to the work."

Editor's note: While Turner has won the battle, it may not have won the war. Buried in two footnotes to her opinion, Judge Wardlaw gave Selznick's heirs hints at how they might exploit "Gone with the Wind" themselves, despite the rest of the decision. First, the judge specifically noted that she had "reserve[d] judgment" on whether the heirs could exploit the movie themselves, by renting a theater and exhibiting it for example. "[I]t may very well be that . . . the beneficial owner, unlike third parties, cannot be held liable to the legal owner for infringement, and, thus, as a logical corollary, would hold a nontransferable right to exploit the work itself," Judge Wardlaw observed. Second, the judge noted that "[t]here is no evidence in this record to suggest that plaintiffs have attempted to correct the records of the Copyright Office in an appropriate proceeding." This suggests that if the heirs could correct the records of the Copyright Office to show that they are co-owners of the movie's renewal copyright, then they too would be able to distribute "Gone with the Wind" by issuing nonexclusive licenses to others. This of course would destroy Turner's ability to issue exclusive licenses, which might well reduce the total value of the movie's copyright, thus giving both sides of this dispute a powerful incentive to compromise.

Selznick v. Turner Entertainment Co., 990 F.Supp. 1180, 1997 U.S.Dist.LEXIS 21729 (C.D.Cal. 1997) [ELR 20:4:25]

Agreement granting MGM "perpetual" distribution rights to "King of Kings" did not expire at end of movie's first copyright term, federal appellate court affirms

A grant of "perpetual" distribution rights does not expire 28 years after the movie was first released - not even if the movie is from the pre-1978 era, and thus its copyright is divided into an initial 28-year term and a separate 47-year renewal term. A federal Court of Appeals has affirmed that this is so, in a case brought by P.C. Films Corp., the current owner of the copyright to the movie "King of Kings," against the movie's current distributors, Turner Entertainment and Warner Home Video.

"King of Kings" was financed by MGM pursuant to a contract that gave MGM "perpetual" distribution rights to the movie but left its copyright in the hands of

Samuel Bronston Productions, Inc., the company that produced it. P.C. Films bought the movie's copyright when Bronston went bankrupt. And Turner and Warner Home Video acquired distribution rights from MGM when Turner bought MGM's library.

P.C. Films renewed the movie's copyright in 1989 and then asserted that the "perpetual" grant of distribution rights was effective only for the first term of the movie's copyright, not for its renewal term. Turner disagreed; and federal District Judge Barbara Jones did too (ELR 19:7:8). P.C. Films appealed, but the Court of Appeals has disagreed with P.C. Film's argument as well.

In an opinion by Judge Fred Parker, the appellate court has confirmed that "perpetual" means "continuing forever," and this language is sufficient to bring this case under those precedents which have held that the law's presumption against transfers of renewal-term rights is overcome by "language which expressly grants rights in `renewals of copyright' or `extensions of copyright,'" and that "the words `forever' and `hereafter' embraced the renewal term." Moreover, uncontradicted testimony by Benjamin Melniker, MGM's General Counsel at the time the distribution agreement was negotiated, showed that MGM would not have financed the movie for less than perpetual distribution rights.

P.C. Films argued that a "perpetual" grant of distribution rights should not be enforced, because such a grant would be against public and copyright policy. This was so, P.C. Films said, because copyright law provides protection only for a limited time. In this case, for example, the copyright to "King of Kings" will expire entirely at the end of the year 2036. Judge Parker responded that it was unnecessary and premature to consider this issue. On behalf of the appellate court he said, "We decline to decide whether the [perpetual distribution agreement] imposes restrictions on P.C. Films beyond the renewal period."

P.C. Films Corp. v. MGM/UA Home Video Inc., 138 F.3d 453, 1998 U.S.App.LEXIS 2835 (2d Cir. 1998) [ELR 20:4:26]

Paramount Pictures' ad for "Naked Gun" was fair use parody of Annie Leibovitz's photo of pregnant Demi Moore, federal appellate court affirms

Paramount Pictures has prevailed again, this time on appeal, in a copyright infringement lawsuit filed against it by photographer Annie Leibovitz. The suit was triggered by an early ad for Paramount's Naked Gun: The Final Insult 33 1/3 which featured a photo of actor Leslie Nielsen's head superimposed on the naked body of a pregnant model. The model in the Paramount ad was posed in a fashion that copied the pose of actress Demi Moore in a photo taken by Leibovitz for the August 1991 cover of Vanity Fair.

Paramount agreed that its ad was copied from Leibovitz's photograph, and that its ad and Leibovitz's photograph were so similar that Paramount could avoid liability only if its ad was a fair use. Thus, early in the case, both Paramount and Leibovitz moved for summary judgment on the fair use question. Federal District Court Judge Loretta Preska ruled in Paramount's favor (ELR 19:5:9).

Leibovitz appealed, arguing that it was she, not Paramount, who was entitled to summary judgment, because the studio's use "was commercial and therefore should receive little protection under the fair use doctrine." In an opinion by Judge Jon O. Newman, the Court of Appeals agreed that the "commercial nature of

Paramount's advertisement weighs against it in the fair use balance." Nevertheless, it concluded that "this advertisement qualifies as a parody entitled to the fair use defense under the analysis set forth by the Supreme Court in Campbell v. Acuff-Rose Music, Inc." - the "2 Live Crew/Pretty Woman" case (ELR 15:12:18).

The "2 Live Crew" case was significant, Judge Newman explained, because in it, the Supreme Court "abandoned" its prior position that commercial uses are presumptively unfair, and instead ruled that commercial uses merely tend to weigh against fair use.

In Leibovitz's case, "the smirking face of Nielsen contrasts so strikingly with the serious expression on the face of Moore, the ad may reasonably be perceived as commenting on the seriousness, even the pretentiousness, of the original." The fact that the ad commented on the original did not end the analysis on this factor, because the ad was used to promote a movie. However, Judge Newman concluded that "On balance, the strong parodic nature of the ad tips the first factor significantly toward fair use, even after making some discount for the fact that it promotes a commercial product."

The judge distinguished the factually similar case of Steinberg v. Columbia Pictures (ELR 9:5:9) - which held that the poster for the movie "Moscow on the Hudson" was not a fair use of artist Saul Steinberg's New Yorker magazine cover - saying that in that case, "a copyrighted drawing was appropriated solely to advertise a movie, without any pretense of making a comment upon the original."

Judge Newman also concluded that the "effect . . . on the market for the original" factor counted in Paramount's favor, because Leibovitz "all but concedes that the Paramount photograph did not interfere with any potential market for her photograph or for derivative works based upon it."

The "nature of the copyrighted work" factor counted in Leibovitz's favor, because Paramount conceded that her photograph "exhibited significant creative expression." But according to Judge Newman, the Supreme Court's "2 Live Crew" decision "instructs that the creative nature of an original will normally not provide much help in determining whether a parody of the original is fair use." Although this "factor therefore favors Leibovitz . . . , the weight attributed to it in this case is slight."

Likewise, the "amount and substantiality of the work used" factor did not help Leibovitz, even though Paramount's copying of the protected elements of her photograph "took more . . . than was minimally necessary to conjure it up." This was so, Judge Newman explained, because the "2 Live Crew" decision "instructs that a parodist's copying of more of an original than is necessary to conjure it up will not necessarily tip the third factor against fair use." Thus, this "factor does not help Leibovitz, even though the degree of copying of protectable elements was extensive."

Thus, of the four factors the Copyright Act makes relevant for fair use analysis, two favored Paramount, one favored Leibovitz only slightly, and one did not help Leibovitz. In the aggregate then, Judge Newman was satisfied that the balance "markedly" favored Paramount.

Leibovitz v. Paramount Pictures Corp., 137 F.3d 109, 1998 U.S.App.LEXIS 2693 (2d Cir. 1998) [ELR 20:4:26]

First-sale doctrine bars right of publicity claims by baseball player Orel Hershisher and race-car driver Clifford Allison against company that sells plaques made by framing licensed Hershisher and Allison trading cards

Baseball player Orel Hershisher and race car driver Clifford Allison have confronted and defeated countless opponents in their storied sports careers. But one opponent has defeated them, in a way that makes legal precedent.

That opponent is Vintage Sports Plaques, an enterprising company that purchases trading cards from licensed manufacturers and dealers and frames those cards, without altering them in any way, by mounting them between transparent acrylic sheets and wood boards. Each plaque is labeled with a plate that bears the athlete's name, and some plaques feature a clock with a sports motif. The one thing Vintage Sports doesn't do is get a license from anyone to make its plaques.

Hershisher and Allison are two of the athletes whose licensed cards have been purchased by Vintage Sports and made into plaques. In response, Hershisher and Allison's widow sued Vintage Sports, alleging that its products violate their publicity rights under Alabama common law. Vintage responded by asserting that its activities are protected by the first-sale doctrine. Federal District Judge Sam Pointer agreed, and dismissed their case.

Undaunted - or at least aware that the game isn't over till the final inning has been played, and the race isn't over until the final lap has been run - Hershisher and Allison appealed. But in a precedent-setting opinion, the Court of Appeals has affirmed.

The first-sale doctrine provides that once owners of intellectual property rights permit the sale of copies of their works, they may not thereafter control the further distribution of those copies. Court of Appeals Judge Phyllis Kravitch noted that the first-sale doctrine limits, in this fashion, the rights of copyright, patent and trademark owners. And Judge Kravitch concluded that treating publicity rights differently would have undesirable consequences.

For example, she said, "a decision by this court not to apply the first-sale doctrine to right of publicity actions would render tortious the resale of sports trading cards and memorabilia and thus would have a profound effect on the market for trading cards, which now supports a multi-billion industry." Also the judge said that if the first-sale doctrine did not apply to the right of publicity, "framing a magazine advertisement that bears the image of a celebrity and reselling it as a collector's item, reselling an empty cereal box that bears a celebrity's endorsement, or even reselling a used poster promoting a professional sporting event" all would "presumably" be prohibited.

Judge Kravitch emphasized that applying the first-sale doctrine to publicity rights "would not eliminate completely a celebrity's control over the use of her name or image." It would not, she explained, because "the right of publicity protects against unauthorized use of an image, and a celebrity would continue to enjoy the right to license the use of her image in the first instance - and thus enjoy the power to determine when, or if, her image will be distributed." In this very case, the judge noted, Hershisher and Allison "have received sizable royalties from the use of their images on the trading cards at issue, images that could not have been used in the first place without permission."

Allison v. Vintage Sports Plaques, 136 F.3d 1443, 1998 U.S.App.LEXIS 5026 (11th Cir. 1998) [ELR 20:4:27]

Producers and distributors of movie "Donnie Brisco" win dismissal of defamation and privacy suit filed by John "Boobie" Cerasani; federal judge finds Cerasani's reputation is so "badly tarnished" he is "libel-proof"

In a stroke of literary understatement, federal District Judge Denny Chin reported that "Cerasani is not a model citizen." Cerasani is John "Boobie" Cerasani, "a convicted racketeer, Mafia associate, bank robber, and drug dealer" who also has been indicted for participating "in an organized crime scheme to manipulate the stock market . . . by threats of violence."

Judge Chin became judicially acquainted with Cerasani's career because Cerasani was portrayed in the book and movie versions of "Donnie Brisco" in ways that did not please him.

Though Cerasani did nothing in response to the 1987 publication of the book, he did take action in response to the 1997 release of the movie. He sued Sony and Tristar Pictures, Mandalay Entertainment, Peter Guber, Barry Levinson and others for defamation and invasion of privacy. The defendants immediately responded with a motion to dismiss, asserting that Cerasani's complaint (and a proposed amended complaint) failed to state a claim. Judge Chin has agreed.

In his opinion granting the defendants' motion to dismiss, Judge Chin reviewed the highlights of Cerasani's "criminal record and his well-publicized reputation for having committed the violent acts at issue." Quite apart from "Donnie Brisco's" portrayal of Cerasani, he also had been the subject of testimony at widely-reported Mafia trials, and had been the subject of numerous newspaper articles detailing that testimony. On this basis, the judge held that "Cerasani's reputation is so `badly tarnished' that, even assuming . . . the film [is] defamatory, he can suffer no further harm and hence no reasonable jury could award him anything more than nominal damages." For this reason, Judge Chin concluded that "Cerasani is `libel-proof.'"

Cerasani also asserted claims under New York Civil Rights Law section 51 - New York's right of privacy and publicity statute. This claim failed, because the released version of "Donnie Brisco" referred to Cerasani as "Paulie" rather than as "John," "Boobie" or "Cerasani." When applying that statute, New York "courts have repeatedly dismissed claims premised on the use of a fictitious rather than actual name." A pre-release version of the movie did refer to Cerasani by his own name, but that version was not exhibited for "purposes of trade," as the statute requires; instead it was exhibited at a pre-release screening for "creative and editorial purposes" as to which the statute does not apply.

Finally, Judge Chin dismissed Cerasani's "false light" invasion of privacy claim, because "New York does not recognize any such false light claim."

Cerasani v. Sony Corp., 991 F.Supp. 343, 1998 U.S.Dist.LEXIS 220 (S.D.N.Y. 1998) [ELR 20:4:28]

America Online wins dismissal of defamation suit filed by White House aides Sidney and Jacqueline Blumenthal on account of statements made in Drudge Report, but court refuses to dismiss or transfer suit against Matt Drudge himself

In the online world of instant communications, mistakes are sometimes made. Cyber gossip columnist

Matt Drudge apparently made a big one when, on the basis of a tip from "one influential Republican," he wrote that Sidney Blumenthal had abused his wife Jacqueline. Both Blumenthals work in the White House, Sidney as an Assistant to the President, and Jacqueline as the Director of the President's Commission on White House Fellowships.

This defamatory statement was disseminated in the Drudge Report, an Internet distributed newsletter Matt Drudge writes from his apartment in Los Angeles. The Drudge Report also is made available to America Online subscribers, in return for which AOL pays Drudge royalties of $3,000 a month.

The Blumenthals reacted to Drudge's allegations with a lawyer-letter and a defamation suit. The letter induced Drudge to issue a retraction, which AOL posted on its service, and an apology from Drudge as well. But the Blumenthals proceeded with their suit nonetheless.

AOL responded with a motion for summary judgment, and Drudge with a motion to dismiss or transfer for lack of personal jurisdiction. AOL's motion has been granted; Drudge's has not.

AOL successfully relied on the Communications Decency Act of 1996, one section of which gives immunity to providers of interactive computer services for liability they might otherwise incur on account of material disseminated by them but created by others. The Blumenthals argued that this section should not apply to AOL's dissemination of the Drudge Report, because AOL knew that Drudge would be providing "gossip and rumor" and actively urged people to subscribe to AOL to get it.

Federal District Judge Paul Friedman seemed to sympathize with the Blumenthals. "If it were writing on a clean slate, this Court would agree with plaintiffs," the judge wrote, adding that "it would seem only fair to hold

AOL to the liability standards applied to a publisher or, at least, like a book store owner or library, to the liability standards applied to a distributor." But the judge was not writing on a clean slate. "Congress has made a different policy choice by providing immunity even where the interactive service provider has an active, even aggressive role in making available content provided by others," he explained.

The Blumenthals filed their suit in federal court in the District of Columbia. Since Drudge lives and works in Los Angeles, he argued that the court did not have personal jurisdiction over him, and thus the case should be dismissed or transferred to Los Angeles. Judge Friedman did not agree, however. He found that the District of Columbia Long-Arm statute gives him authority to exercise jurisdiction over Drudge in this case, and that it would not violate Due Process for him to do so.

Blumenthal v. Drudge, 992 F.Supp. 44, 1998 U.S.Dist.LEXIS 5606 (D.D.C. 1998) [ELR 20:4:29]

Neither RKO General nor Turner Entertainment is liable for payments due the American Federation of Musicians trust fund in connection with revenues earned by 1946-1958 movies

RKO General and Turner Entertainment have escaped liability for payments allegedly due to the Hollywood Film Trust, on account of revenues still being earned by movies produced 40 and more years ago. The Hollywood Film Trust was created in 1954 as part of the settlement of a strike by the American Federation of Musicians against that era's major movie producers and distributors. The Trust Agreement required signing producers and distributors to pay the Trust 5% of their revenues from movies made between September 1946 and January 1958, in order to create a fund that would support free public performances by instrumental musicians.

It appears that the parties anticipated that the rights to at least some of the covered movies might at some time in the future be transferred from signing companies to others. So in order to protect the fund, the Trust Agreement further provided that signing companies would not transfer their rights in covered movies unless the transferee signed the Agreement itself.

RKO signed the Trust Agreement in 1955. Much later, in 1984, it transferred its rights in covered movies to a wholly-owned subsidiary and then sold all of the stock of that subsidiary to another company that had not signed the Trust Agreement and never did. In 1987, that company sold the stock to yet another company that then licensed the movies to Turner for television. Turner has never signed the Trust Agreement either. And no payments have been made to the Trust since 1984 when RKO began the daisy chain by transferring its rights to its subsidiary.

RKO arguably breached the Trust Agreement when its subsidiary failed to make required payments in 1984 and then again in 1987 when it sold the stock of the subsidiary to a non-signing company. But for some reason, the Trust didn't get around to suing RKO until 1994. The statute of limitations for breach of contract under applicable New York law is six years. But even if RKO did breach, it did so seven or even ten years before suit was filed. In an opinion by Judge Joseph McLaughlin, a federal Court of Appeals has affirmed a lower court ruling that the statute of limitations therefore barred the Trust's lawsuit. Judge McLaughlin rejected a number of creative arguments offered by the Trust in its attempt to establish a breach that occurred fewer than six years before.

The Trust asserted two contract-based theories against Turner. First, the Trust claimed that it was a third-party beneficiary of the 1987 contract by which Turner acquired rights in the movies from the company that then owned them. Second, the Trust argued that Turner was directly liable under that same contract, because in it, Turner had agreed to assume certain obligations, including - the Trust argued - obligations to pay the Trust.

In an opinion never published in print (though it can be found at 1996 U.S.Dist.LEXIS 3508, 1996 WL 131816), District Court Denise Cote rejected both of these theories. The third-party beneficiary argument failed, because there was no evidence to show that in 1987 Turner or the company that then owned the movies intended the Trust to be a beneficiary of their agreement. The assumption-of-obligations argument failed, because the contract identified the obligations Turner assumed, and they did not include the Trust Fund payments that were the subject of this suit. On appeal, Judge McLaughlin affirmed these rulings "for substantially the reasons set forth in Judge Cote's Opinion."

Raine v. RKO General, Inc., 138 F.3d 90, 1998 U.S.App.LEXIS 3182 (2d Cir. 1998) [ELR 20:4:29]

Playboy wins further damages in second phase of copyright case against owner and operators of website that distributed images to subscribers that had been copied from magazine and uploaded to site; but court rejects Playboy's trademark claims

Playboy Enterprises has been awarded an additional $129,000 plus attorneys fees in a copyright infringement suit against the owner and operators of a website called Neptics. This award was made by federal District Court Judge Barefoot Sanders at the conclusion of a non-jury trial. Judge Sanders also issued a permanent injunction against the defendants, barring them from committing any further infringements of Playboy's copyrights.

In an earlier phase of this case, Playboy was awarded $310,000 plus attorneys fees, in response to the publisher's motion for summary judgment concerning

62 Playboy photographs the website had retrieved from newsgroups and posted to its own webservers (ELR 19:11:11).

The non-jury trial conducted by Judge Sanders concerned 29 additional photographs. Judge Sanders awarded Playboy $1,000 for the infringement of the copyright to each of those 29 photos, plus an additional $20,000 each for the "willful" infringement of the copyrights to five of those photos. The owner of the corporation that operated the website and one of its employees were found vicariously liable for the infringements, and thus the judgment was entered against them as well.

While Playboy's victory was significant, it was not entirely complete. In addition to its copyright claims, the publisher also asserted claims against the website's owner and operators for trademark infringement, dilution, and federal and state unfair competition. Judge Sanders rejected those claims, however, finding that

Playboy had failed to prove elements necessary to succeed on these legal theories.

Playboy Enterprises, Inc. v. Webbworld, Inc., 991 F.Supp. 543, 1997 U.S.Dist.LEXIS 21264 (N.D.Tex. 1997) [ELR 20:4:30]

Federal court denies Motion Picture Academy's motion for injunction requiring Network Solutions to stop registering Internet domain names containing words "Academy Awards" and "Oscars"

Internet domain names are registered to applicants by a company known as Network Solutions, Inc., on a first-come first-served basis. The process is usually done by computer, with no human intervention. This has enabled unscrupulous applicants to register domain names containing famous trademarks owned by others, without the consent of trademark owners.

Suits against the unscrupulous have already been successful. Panavision, for example, has won a trademark action against a fellow who registered "panavision.com" and "panaflex.com" as domain names, apparently with the hope of selling those registrations to Panavision at a huge profit (ELR 19:3:21).

The Academy of Motion Picture Arts and Sciences also has been victimized by poachers who have registered such domain names "academyaward.com" and "theoscars.net," without the Academy's permission. While the Academy could have sued those who registered such domain names directly, just as Panavision did, the Academy tried a different tactic. It sued Network Solutions, Inc., hoping to get an injunction that would have prohibited Network Solutions from registering domain names that are confusingly similar to the

Academy's registered "Academy Awards" and "Oscar" trademarks.

If successful, this strategy would have reduced the number of domain name trademark cases the Academy would have to file in the future, because it would have cut off further poaching on the Academy's trademarks. But the strategy has not been successful.

Federal District Judge Laughlin Waters has denied the Academy's motion for a preliminary injunction, finding that it was unlikely to succeed on any of its various theories and finding the balance of hardships favored Network Solutions rather than the Academy.

The judge rejected the Academy's federal and state trademark dilution claims. The federal dilution claim was unlikely to succeed, Judge Waters concluded, because Network Solutions' own activities do not themselves constitute the use of the Academy's trademarks "in commerce," and because "there is no precedent" for a contributory dilution claim. The state contributory dilution claim, under California law, failed for the same reasons.

The judge rejected the Academy's contributory infringement claim, because it hasn't been determined that the objected-to domain names infringe, and "therefore Network Solutions could not possibly have actual knowledge that the registered owners of the domain names at issue are involved in infringing activities."Network Solutions was not itself an infringer, because it does not itself use the Academy's marks in connection with the sale, distribution or advertising of goods or services, the judge ruled.

Finally, Judge Waters found that the balance of hardships favored Network Solutions, rather than the Academy, because "implementing a massive pre-screening process [to screen out infringing domain names] would drastically change the nature of [Network

Solutions'] business [and] would likely drive the cost of registration up and slow the process down."

Academy of Motion Picture Arts and Sciences v. Network Solutions, Inc., 989 F.Supp. 1276, 1997 U.S.Dist.LEXIS 20806 (C.D.Cal. 1997) [ELR 20:4:30]

New York City regulations on use of amplifiers in public places is unconstitutional in part, federal District Court rules in case brought by street musician

Robert Turley is a self-employed street musician who plays a ten-string treble bass guitar in public spaces in New York City, usually in the Times Square area. Turley's guitar is made audible by a sound amplifier and thus subjected his performances to City regulation.

The City Administrative Code provides that the maximum volume for sound amplifiers is 75 decibels at six feet, which wasn't loud enough to suit Turley's style. The Code also requires those who use amplifiers to get permits, for which the Police Department charged $29 a day until 1996 and $45 a day ever since, which was more than Turley was willing to pay.

New York City has had trouble before with its attempts to regulate those who do business from the streets, like street vendor artists (ELR 19:2:21). Turley followed their lead in attacking, on First Amendment grounds, the constitutionality of the City's attempts to regulate those who use amplifiers. And like street artists before him, he too has achieved significant success.

A jury ruled that the City's 75 decibel limit was "unreasonably low," and federal District Judge Shira Scheindlin denied the City's motion for a new trial on that issue. While the City had offered testimony showing the limit was reasonable, Turley's own expert testified that to be heard, music must be 15 to 20 decibels louder than the surrounding sounds. Even the City's expert acknowledged that the noise around Times Square averages at least 70 decibels. Thus, said the judge, the jury's verdict that a 75 decibel limit on amplified music was unreasonable "was not seriously erroneous."

The jury also found that the City's pre-1996 permit fee of $29 was excessive, but the later $45 fee was not. The City offered explanations for how the jury may have reached this seemingly inconsistent verdict; but Judge Scheindlin granted Turley's motion for a new trial as to the $45 fee because the jury's verdict sheet did not support the City's explanation.

Judge Scheindlin conducted the retrial of the fee issue herself, and then ruled in Turley's favor. Music, even if amplified, is - like speech - protected by the First Amendment, and states may not tax constitutionally-protected speech. On the other hand, the judge explained, states may impose reasonable, content-neutral, narrowly-tailored time, place and manner regulations on speech. And fees that are imposed to meet the expenses of administering such regulations (rather than to raise revenue) "are constitutionally permissible." However, "A fee in excess of the amount necessary to offset these costs is impermissible."

After reviewing, in some detail, the cost-accounting testimony offered in support of the $45 permit fee, Judge Scheindlin concluded that "the City has not satisfied its burden of proving the average costs of processing [a permit application] equals or exceeds the current $45 fee." As a result, the judge ruled that the fee "is unreasonable and therefore violates Plaintiff's First Amendment rights," and she enjoined the City from charging that much (or more) for the amplifier permit.

Turley v. New York City Police Dept., 988 F.Supp. 667, 1997 U.S.Dist.LEXIS 20240 (S.D.N.Y. 1997); 988 F.Supp. 675, 1997 U.S.Dist.LEXIS 12815 (S.D.N.Y. 1997) [ELR 20:4:31]

First Amendment rights of artist were not violated when General Services Administration denied his application to display sculpture of judge in lobby of federal building, because decision was reasonable and viewpoint neutral

Artist John Sefick creates satirical sculptures of prominent people who are currently in the public eye. He likes to exhibit his work in the lobbies of federal buildings, and has done so more than once under the Public Buildings Cooperative Use Act. This little-known federal statute authorizes the General Services

Administration to make federal buildings available for cultural (and other) activities, including the fine art exhibits.

One of Sefick's sculptures was of federal District Judge Brian Barnett Duff. Sefick applied for a permit to display the Duff sculpture in the lobby of the Dirksen Federal Building in Chicago, which is the building in which Judge Duff's courtroom and the Seventh Circuit Court of Appeals are located.

The General Services Administration denied Sefick's application for at least three reasons: the Dirksen lobby was being reconstructed at the time; there had been security threats to some of the building's occupants; and the sculpture may have influenced judicial proceedings taking place in the building. Sefick contended that this refusal violated his First Amendment rights, and he filed a lawsuit so alleging (apparently in the very courthouse in whose lobby he wanted to display his sculpture).

Following a trial before Judge Rudy Lozano (of the Northern District of Indiana, sitting by designation), the government has won. The lobby of the Dirksen Building is a nonpublic forum, the judge ruled, and thus the GSA's decision not to permit Sefick to exhibit his work there was constitutional, so long as it was reasonable and viewpoint neutral.

Judge Lozano put the burden on the government to prove both reasonableness and viewpoint neutrality. Nonetheless, after reviewing the trial testimony in some detail, the judge concluded the government had met its burden. Although Sefick attacked the government's reasons as mere pretext, Judge Lozano did not agree. He found the government's construction-safety and security concerns to be reasonable. And he found the government's judicial-influence concern to be viewpoint neutral, because the administrators who rejected Sefick's application testified believably that they could not tell what viewpoint the Duff sculpture expressed.

Sefick v. Gardner, 990 F.Supp. 587, 1998 U.S.Dist.LEXIS 1890 (N.D.Ill. 1998) [ELR 20:4:32]

Pittsburgh did not violate rights of independent vendors by granting exclusive vending license for Three Rivers Stadium to one company and adopting an ordinance that prohibits others from vending on Stadium property

When the Pirates and Steelers play home games in Pittsburgh's Three Rivers Stadium, they attract huge crowds of fans - and potential customers. Not surprisingly, these crowds attracted a cadre of independent vendors who offered to sell food, drink and souvenirs to arriving and departing fans. Until December 1995, independent vendors were able to ply their trade, even from Stadium property, so long as they stayed 250 or more feet from the outside wall of the Stadium itself.

Three Rivers Stadium is owned by the City of Pittsburgh, and in December 1995, the City did two things that affected independent vendors adversely. The City entered into an agreement with Pittsburgh Stadium Concessions, Inc., giving that company the exclusive right to sell food, drink and souvenirs on Stadium property. And the City adopted an ordinance that prohibits others from doing so, on Stadium property or within thirty feet of it.

Several independent vendors sued the City, asserting that its actions deprived them of constitutional rights and violated federal antitrust law. But federal District Judge Alan Bloch has rejected the vendors' contentions and has granted the City's motion for summary judgment.

The vendors' substantive due process claims failed, Judge Bloch ruled, because the objected-to ordinance was adopted, in part, to maximize Stadium profits - in order to keep the Pirates and Steelers in Pittsburgh - and "[r]evenue production is a legitimate state interest." The vendors' equal protection claim was rejected for the same reason.

The vendors argued that their procedural due process rights had been violated, because one member of the City Council who had voted for the ordinance also was a member of the Stadium Authority (the City body that manages the Stadium). But the judge found no merit in this argument, because voting in favor of the ordinance was not a "prosecutorial function."

The vendors' antitrust claim lacked merit, because the City is immune from antitrust liability for actions it takes as an "act of government." Entering into exclusive contracts with suppliers of goods and services is such an act, Judge Bloch determined. And for that reason, the City was immune from the vendors' antitrust claim.

Kaehly v. City of Pittsburgh, 988 F.Supp. 888, 1997 U.S.Dist.LEXIS 7203 (W.D.Pa. 1997) [ELR 20:4:32]

Music publishers win copyright infringement suit against unlicensed radio station; station's owner is held vicariously liable, and injunction is granted barring station from broadcasting any ASCAP song

A religious radio station in Battle Creek, Michigan, has been found liable for copyright infringement, because it continued to broadcast songs after its ASCAP license was terminated for non-payment of license fees.

Federal District Judge Wendell Miles rejected the station's unsupported assertion that it was "confused" about the status of its ASCAP license and was willing to pay past-due license fees if only ASCAP would send it a bill.

Moreover, the station's owner, a Detroit class-action lawyer, has been held vicariously liable, even though programming decisions were made by the station's manager or disc jockeys rather than by the owner. The judge held the station owner vicariously liable, because the owner had a financial interest in the station's use of the songs and "he could have controlled the operation of the station had he so desired."

Although the lawsuit was filed by only five ASCAP members, they sought and were granted an injunction prohibiting the station from broadcasting "any and all music in the ASCAP repertory." Judge Miles ruled that such an injunction was proper, because the station had admitted that it "constantly" plays ASCAP-licensed songs and that it had stopped paying ASCAP license fees, and because the station had been sued by other ASCAP members in a separate infringement case.

All Nations Music v. Christian Family Network, Inc., 989 F.Supp. 863, 1997 U.S.Dist.LEXIS 20064 (W.D.Mich. 1997) [ELR 20:4:33]

Roger Williams University wins Title IX gender discrimination lawsuit filed by former Associate Athletic Director

Rhode Island's Roger Williams University has won dismissal of a Title IX lawsuit filed against it by Patricia Bedard, the University's former Associate Athletic Director. In her suit, Bedard alleged that the

University had discriminated against her on account of her gender in deciding to hire a man, instead of her, to be Athletic Director, and then again when it later terminated her employment entirely.

Federal District Judge Ernest Torres has accepted the recommendation of Magistrate Judge Robert Lovegreen that the University's motion for summary judgment be granted. Judge Lovegreen agreed with Bedard that Title IX creates a private cause of action for employment discrimination by federally funded educational institutions - a conclusion about which there are still conflicting rulings. But that is as far as Bedard got with her case.

With respect to her failure-to-promote claim, Judge Lovegreen found that "Bedard was a prime candidate [for Athletic Director], but, unfortunately for her, the final round of the selection process yielded a more qualified applicant to whom the job ultimately went." As a result, the judge concluded, "a reasonable trier-of-fact could conclude that the University's decision not to promote Bedard to Athletic Director was not motivated by a discriminatory animus, but instead by its desire to hire what it perceived as the most qualified applicant."

Similarly, with respect to her wrongful termination claim, Judge Lovegreen found that "a rational trier-of-fact could conclude that the University's decision to fire Bedard was not motivated by a discriminatory animus, but by a dissatisfaction with her performance."

Since the University provided evidence of non-discriminatory reasons for its actions, the burden shifted to Bedard to produce evidence that the University's purported reasons were mere pretext. This she failed to do, however, Judge Lovegreen concluded.

Bedard v. Roger Williams University, 989 F.Supp. 94, 1997 U.S.Dist.LEXIS 19897 (D.R.I. 1997) [ELR 20:4:33]

Slander claim of former women's basketball coach at University of District of Columbia should have been resolved by grievance procedures under Comprehensive Merit Personnel Act, so $200,000 verdict is set aside

More than fifteen years of litigation have come to nothing for Bessie Stockard as a result of what some would call an unanticipated technicality. The District of Columbia Court of Appeals has held that Bessie Stockard's slander claim against the Athletic Director at the University of the District of Columbia should have been resolved pursuant to the administrative grievance procedures created by the D.C. Comprehensive Merit Personnel Act, rather than by litigation. As a result, a $300,000 verdict in Stockard's favor, which was reduced to $200,000 in an earlier phase of the case, was in effect set aside. And judgment has been entered in favor of the Athletic Director and the University.

Stockard's suit was filed back in 1982 in response to statements made by the Athletic Director accusing Stockard of misappropriating funds. In most cases, if such a statement were untrue, a defamation lawsuit would be the proper procedure for seeking relief; and for more than a decade, the parties to this lawsuit appear to have litigated this case as though slander were the proper claim. The first time the Court of Appeals heard this case, it affirmed the $100,000 reduction in Stockard's verdict, but remanded for consideration of whether the Athletic Director was entitled to absolute immunity for her allegedly defamatory statement (ELR 13:2:15).

Instead of resolving that question, however, the trial court concluded that the Comprehensive Merit Personnel Act applied. That Act covers "virtually every conceivable personnel issue among the District [and] its employees"; and it contains administrative grievance procedures that must be used in lieu of lawsuits.

Though Stockard's claims are based on statements that were made almost 20 years ago, the Athletic Director and University may not be entirely done with Stockard yet. The Court of Appeals decision in their favor noted that the judges "express no opinion about whether Stockard is, or is not, time barred from pursuing these claims administratively."

Stockard v. Moss, 706 A.2d 561, 1997 D.C.LEXIS 212 (D.C. 1997)[ELR 20:4:33]

Nightclub operator must pay minimum wage and overtime to exotic dancer, because she was employee and not an exempt professional under Fair Labor Standards Act, federal District Court rules

Diamond A Entertainment, the owner of two Florida nightclubs called Babe's and Foxy Lady, must pay exotic dancer Lora Harrell minimum wages and overtime, as required by the Fair Labor Standards Act, federal District Judge Susan Bucklew has ruled.

Diamond A argued that Harrell was not an "employee," or if she was, she was a "professional," and thus the Act did not apply to her claim. The Fair Labor Standards Act requires minimum wages to be paid only to "employees," not to independent contractors; and the Act does not cover employees who are "professionals."

In this case, Harrell and Diamond A had entered into an agreement called a "License to Use Business

Premises" pursuant to which Harrell was granted a non-exclusive license to dance and entertain customers in Babe's and Foxy Lady. The agreement provided that Harrell would pay Diamond A a license fee of $10 per day shift and $15 per night shift, and she would retain all tips (called "dance fees") she received from customers.

On its face, the licensing agreement appears to make Harrell an independent contractor rather than an employee. But a multi-factor test is used to determine whether an "employment" or "independent contractor" relationship exists for Fair Labor Standards Act purposes. When Judge Bucklew applied this test, she found that Harrell was an employee rather than an independent contractor.

Although the Act exempts from its protection those employees who are "professionals," there also is a multi-factor test for determining whether someone is a professional for the purposes of that Act. Again, when the judge applied that test, she concluded that Harrell was not a "professional."

As a consequence of these findings, Judge Bucklew has denied Diamond A's motion to dismiss Harrell's lawsuit.

Harrell v. Diamond A Entertainment, Inc., 992 F.Supp. 1343, 1997 U.S.Dist.LEXIS 22632 (M.D.Fla. 1997) [ELR 20:4:34]

Federal District Courts uphold constitutionality of local ordinances prohibiting or regulating entertainment establishments featuring nude or topless dancing

In separate cases, federal District Courts in Florida, Connecticut and Texas have upheld the constitutionality of local ordinances that prohibit or regulate entertainment establishments featuring nude or topless dancing. The ordinances had been challenged on First Amendment grounds, but the challenges have been rejected in all three cases.

The Florida ordinance prohibits nude or topless dancing in clubs that serve liquor. Such ordinances were approved by the United States Supreme Court as long ago as 1972 in California v. LaRue, 409 U.S. 109, 93 S.Ct. 390 (1972). But the owners of clubs in Bay County, where the ordinance was adopted, argued that the Supreme Court's more recent 1996 decision in 44 Liquormart, Inc. v. Rhode Island (ELR 18:2:6) "impliedly overruled" California v. LaRue and other cases that had upheld the constitutionality of such laws. Judge Robert Hinkle disagreed, however.

The Connecticut ordinance requires "adult cabarets" to operate only in certain "zones" in New Haven and only if a "special exception" is obtained from the city's Board of Zoning Appeals. "Adult cabarets" are defined to include businesses that feature topless, nude and "exotic" dancing. A company that wanted to open a topless bar in New Haven challenged the standards used by the Board of Zoning Appeals in deciding whether to grant special exceptions, arguing that those standards are unconstitutionally vague and do not provide sufficiently prompt judicial review. Judge Janet Arterton disagreed.

The Texas ordinance prohibits dancers from being nude unless they are at least six feet from customers and on an elevated stage. It also prohibits dancers from drinking alcoholic beverages where they dance, while working and for 12 hours before or after working. The ordinance, adopted by Jefferson County, was challenged by the owner of an adult entertainment enterprise and several nude dancers. They contended that the ordinance was not content-neutral, was impermissibly vague, and violated the equal protection clause. But in a lengthy report, federal Magistrate Judge Earl Hines rejected these contentions; and federal District Judge Richard Schell adopted the Magistrate's recommendations and denied the plaintiffs' request for a preliminary injunction.

Toy Box, Inc. v. Bay County, 989 F.Supp. 1183, 1997 U.S.Dist.LEXIS 21085 (N.D.Fla. 1997); Crown Street Enterprises, Inc. v. City of New Haven, 989 F.Supp.

420, 1997 U.S.Dist.LEXIS 22548 (D.Conn. 1997); DFW Vending, Inc. v. Jefferson County, Tex., 991 F.Supp. 578, 1997 U.S.Dist.LEXIS 21251, 1998 U.S.Dist.LEXIS 306 (E.D.Tex. 1998) [ELR 20:4:34]

DEPARTMENTS

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The Entertainment Law Review, published by Sweet & Maxwell Ltd. Legal Information Resources, The Hatchery, Hall Bank Lane, Mytholmroyd, Hebden Bridge, West Yorkshire HX7 5HQ, Telephone 01422 888000, has issued Volume 9, Issue 5 with the following articles:

Pastiched-off by Richard Harrison, 9 Entertainment Law Review 181 (1998) (for address, see above)

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Jurisdiction Over Cross Border Internet Infringements by Shlomo Cohen, 20 European Intellectual Property

Review 294 (1998) (for address, see above) [ELR 20:4:36]