

MEMORANDUM

TO: Max Siegel
CC: Amie Peele Carter
FROM: Louis T. Perry; Katie Wiley
DATE: May 20, 2009
RE: Florida Bar Entertainment and Arts Section: Representation of Multinational Entertainment Entities

I. Choice of Forum

When choosing a forum in which to litigate, a multinational entertainment entity must consider a variety of issues that might impact the outcome of its case. Depending upon the nature of what is to be litigated, the speed at which a particular court operates might be a prime concern. Another prime concern is a jurisdiction's body of case law and experience dealing with entertainment-related issues.

A. Eastern District of Virginia's "Rocket Docket"

According to the 2008 Federal Court Management Statistics, the United States District Court for the Eastern District of Virginia has the shortest median time from civil filing to trial (9.8 months) of any federal court in the nation.

The so-called "Rocket Docket" affords a plaintiff many advantages – it allows the plaintiff a pre-filing opportunity to formulate a strong litigation and discovery plan and thoroughly research key legal issues. A plaintiff can even prepare drafts of briefs to use in the pretrial and trial phases of the case.

A defendant, however, is not afforded this luxury. Rather, a defendant is caught unaware and must scramble to analyze issues and react to motions. Often, detailed analysis of complex issues is all but impossible.

Because of the advantages afforded to a plaintiff, the Eastern District of Virginia is often the first choice of a forum in which to sue. As a result, the Eastern District of Virginia has also developed a reputation as a court eager and willing to transfer cases on grounds of jurisdiction and venue.

It should be noted, however, that Virginia's long-arm statute is broad and contains a distinctive provision of which multinational entertainment entities should be aware: "Using a computer or computer network located in the Commonwealth shall constitute an act in the Commonwealth."

(Va. Code § 8.01-328.1(B)). This section of the long-arm statute can be applied to hackers, spammers, or file-sharers utilizing internet infrastructure in Virginia.

B. Recent Notable Copyright Cases in Jurisdictions Known for Copyright Litigation

i. 2nd Circuit

***Atlantic Recording Corp. v. Brennan*, 534 F.Supp.2d 278 (D. Conn. 2008)**

Several recording industry plaintiffs filed a copyright infringement action against the defendant, who failed to respond or appear. Despite the absence of any opposition by the defendant, the court denied the plaintiffs' motion for default judgment because the defendant might have meritorious defenses. The court noted that at least one aspect of plaintiffs' claim was problematic, namely the allegation of infringement based on "making the copyrighted recordings available for distribution to others." Without actual distribution of copies, there was no violation of the distribution right. Other defenses with possible merit included whether the amount of statutory damages, measured against money damages suffered, was unconstitutionally excessive, and whether the plaintiffs had engaged in anticompetitive behavior constituting copyright misuse.

What this means for plaintiffs: Default judgments may not always be automatic, even when defendants technically default. Also, plaintiffs must show actual distribution.

What this means for defendants: Courts may be a bit more lenient if the defendant is an individual.

***Atlantic Recording Corp. v. Dangler*, 517 F.Supp.2d 660 (W.D.N.Y. 2007)**

In an action by a record company against an individual for peer-to-peer file sharing of music, the plaintiff sought default judgment. The court denied the motion, finding that there were significant issues of fact regarding the identification of the defendant from his online username. The complaint did not identify details such as the time period during which the violations allegedly occurred, or explain how the user, identified only as HeavyJeffMC@Kazaa, was determined to be the defendant.

What this means for plaintiffs: Make the complaint as specific as possible. Generalities will not be looked upon favorably in peer-to-peer file sharing cases.

What this means for defendants: Read complaints carefully and point out any lack of specificity, no matter how minor.

***U.S. v. ASCAP*, 485 F.Supp.2d 438 (S.D.N.Y. 2007)**

In a rate proceeding between ASCAP and large Internet portals such as AOL and Yahoo, the issue was whether the downloading of a digital music file embodying a song constitutes a public performance of the song. The court held that it did not. To "perform" as defined in the statute means "to recite, render, play, dance or act" a work, either directly or by means of a device or

process. Downloading music, the court reasoned, did not fit within the definition in the absence of a perceptible rendition.

What this means for plaintiffs and defendants: Downloading a song does not constitute a public performance.

Elektra Entertainment Group, Inc. v. Barker, 2008 WL 857527 (S.D.N.Y. 2008)

Recording companies brought suit against an individual for peer-to-peer file sharing of music. Among other things, the plaintiffs alleged in the complaint that the defendant infringed their copyrighted music by "making it available" for distribution to others. The defendant moved to dismiss the portions of the complaint based on a "making available" theory. Defendant asserted that making a work available for distribution did not state a claim under the Copyright Act and that plaintiffs could not establish a violation of the distribution right without alleging an actual transfer of plaintiffs' works by defendant. The court found that the concepts of "distribution" to the public under §106(3) and "publication" as defined in §101 are synonymous. Since publication consists not only of the distribution of copies or phonorecords, but also of the "offering to distribute" copies or phonorecords for purposes of further distribution, then "offering to distribute" a work alleges a violation of the distribution right. However, the court rejected the plaintiffs' argument that the distribution right is violated merely by "making available" the plaintiffs' works. This theory is not grounded in the language of the statute. The court ruled that liability under §106(3) requires that plaintiffs must affirmatively plead that defendant made an offer to distribute, and that the offer to distribute was for the purpose of further distribution, public performance, or public display. Congress did not expressly equate the act of "offering to distribute" to the act of "making available." The court also concluded that the "making available" right asserted by the plaintiffs could not be based on the right to "authorize" distribution in §106(3).

What this means for plaintiffs: Alleging that the defendant offered to distribute a digital file is the key to a successful complaint. Making a file available is not enough

What this means for defendants: Assess your conduct carefully – it may be that a file was made available, but not offered for distribution.

Fitzgerald v. CBS Broadcasting, Inc., 491 F.Supp.2d 177(D. Mass. 2007)

Plaintiff, a freelance photographer, owned copyright in a photograph of a mobster being arrested. Plaintiff sued CBS for broadcasting the photo in connection with a story about the arrest of another gangster. The court granted summary judgment in favor of plaintiff on liability, finding that the use by the defendant was not a fair use. Though the photo was used for news reporting, the use was not transformative and was commercial in nature. The use would have a clearly detrimental effect on the market for the work since the main market was licensing the photograph to media organizations. Thus, the court found that the use was not fair.

What this means for plaintiffs and defendants: Fair use is a limited right, especially when the use in question is not transformative.

***Viacom Int. Inc. v. YouTube, Inc.* 2008 WL 629951 (S.D.N.Y. 2008)**

Viacom sued YouTube alleging massive amounts of copyright infringement. It moved to amend its complaint to assert a claim for punitive damages. Viacom asserted that if it elected to recover actual damages rather than statutory damages, it could also seek a punitive damages award. The court denied the request. The Second Circuit has stated that punitive damages are not available under the Copyright Act, regardless of whether a plaintiff is seeking statutory damages or actual damages plus profits.

What this means for plaintiffs and defendants: Punitive damages will not be awarded under the Copyright Act.

ii. 9th Circuit

***Leadsinger, Inc. v. BMG Music Pub.*, 512 F.3d 522 (9th Cir. 2008)**

Plaintiff manufactured karaoke devices. It brought a declaratory judgment action seeking a declaration that it is entitled to print or display song lyrics in real time with song recordings as long as it obtains a compulsory mechanical license under §115. The court of appeals held that the compulsory license provided by §115 applies only to "phonorecords," and phonorecords are defined as "material objects in which sounds, *other than those accompanying a motion picture or other audiovisual work*, are fixed" Since the karaoke devices displayed words, the court reasoned, they were audiovisual works, not phonorecords, and did not qualify for the compulsory license. The court also concluded that the display of the lyrics was not a fair use.

What this means for plaintiffs and defendants: The use of lyrics in the growing field of karaoke and karaoke-related products (the Guitar Hero series of video games; the Rock Band series of video games; and multiple other karaoke-like games for video game consoles) is not subject to the fair use doctrine.

***Metro Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 518F.Supp.2d 1197 (C.D. Cal. 2007)**

After remand from the Supreme Court, the district court granted summary judgment for plaintiff against defendant Morpheus, for inducing infringement by means of peer-to-peer music downloading. Plaintiff moved for a permanent injunction. The court held that it was necessary for plaintiff to show irreparable harm. Irreparable harm cannot be established solely from the fact of past infringement. Here the court found that there was irreparable harm as a result of the tremendous scale of the infringement.

What this means for plaintiffs and defendants: Irreparable harm due to infringement can be found in a variety ways, but past infringement is not one of them.

II. Intellectual Property Treaties

There are numerous intellectual property related treaties of which multinational entertainment entities should be aware. Below is brief summary of some of the most important treaties that currently exist. While it is important to understand these treaties, the face of international intellectual property enforcement (as it relates to copyright) may change significantly in the near future with the impending negotiation and ratification of the Anti-Counterfeiting Trade

Agreement. This section summarizes some of the more prominent Intellectual property treaties and concludes with a discussion of the Anti-Counterfeiting Trade Agreement.

A. Summary of the Berne Convention for the Protection of Literary and Artistic Works (1886)

Works originating in one of the contracting States must be given the same protection in each of the other contracting States as the latter grants to the works of its own nationals. This protection is automatic – it must not be conditioned upon compliance with any national formalities. Such protection may be denied when protection in the country of origin ceases. Subject to certain permitted reservations, limitations or exceptions, the following are among the rights which must be recognized as exclusive rights:

- the right to translate;
- the right to make adaptations and arrangements of the work;
- the right to perform in public dramatic and musical works;
- the right to recite in public literary works;
- the right to communicate to the public the performance of such works;
- the right to broadcast;
- the right to make reproductions in any manner or form; and
- the right to use the work as a basis for an audiovisual work, and the right to reproduce, distribute, perform in public or communicate to the public that audiovisual work.

B. WIPO Copyright Treaty (WICT) and the WIPO Performances and Phonograms Treaty (WPPT) (1996)

The WICT provides additional protections deemed necessary due to technological advances since the adoption of the Berne Convention. It provides authors of works with control over the works' rental and distribution. The WICT was implemented into U.S. law by the DMCA.

WPPT affords performers (and producers of phonograms) four economic rights in their performances fixed in phonograms (it is important to note that these do not apply to audiovisual works, such as motion pictures):

- The right of reproduction (in other words, the right to authorize direct or indirect reproduction of the phonogram in any manner or form);

- the right of distribution (in other words, the right to authorize the making available to the public of the original and copies of the phonogram through sale or other transfer of ownership);
- the right of rental (in other words, the right to authorize the commercial rental to the public of the original or copies of the phonogram); and
- the right of making available (in other words, the right to authorize the making available to the public, by wire or wireless means, of any performance fixed in a phonogram, in such a way that the public may access the fixed performance from a place and a time individually chosen by them).

WPPT also grants three economic rights to performers in respect of their live performances: (i) the right of broadcasting; (ii) the right of communication to the public; and (iii) the right of fixation.

C. Anti-Counterfeiting Trade Agreement (ACTA)

ACTA is a proposed trade agreement that is meant to address the growing market for counterfeit goods and pirated copyright protected works. ACTA's scope is broad – it is intended to cover both physical and digital goods. ACTA is unique in that it would establish its own governing body apart from other international governing bodies (such as WIPO, the World Trade Organization, etc.).

Although the negotiations for ACTA have been conducted in secrecy, it is expected that its provisions will include criminal enforcement, border measures, civil enforcement, optical disc piracy, and internet distribution and information technology. It is also expected that ACTA will contain a provision that forces ISPs to provide information about suspected copyright infringers without a warrant (thus making it easier to pursue file sharers and shut down BitTorrent websites).

One area that many countries continue to disagree on is that of border searches. Many reports indicate that the proposed agreement could empower officers at international borders to conduct random searches of laptops, MP3 players and cell phones for illegally downloaded music and movies. Some countries oppose this – others, like the United States, are reportedly pushing for broad provisions.

Because of the closed nature of the negotiations, most of what we know about ACTA is based on leaked documents and vague statements from the European Commission. These negotiations are expected to continue through 2009, so it may be some time before ACTA is put into effect.

III. Doing Business in Foreign Territories

Navigating the corporate world in the U.S. and abroad can be a daunting task. Many factors, including the current economic environment, technological improvements and competitive advantages, cause more and more companies in every industry to take their business to an

international level. How can we as lawyers assist our clients in being competitive in the international arena? Well, we can advise them to follow a few best practices:

- Know your audience - Be aware of and adapt your business style to the country in which you want to do business.
 - Some key questions are: How do you greet business associates? How do people dress for business meetings? How much of the language do you or others need to know to be able to communicate effectively? What are normal business hours? How long and what is the process of business negotiations?
- Utilize resources.
 - Any other foreigner who has business experience in the area (expatriates can serve as a guide to help through the process);
 - Even if you don't yet have a network, the U.S. Department of State has FAQ on "Doing Business Abroad" on its website, and the Office of Commercial and Business Affairs (CBA) is the primary point of contact (other more specialized agencies for the entertainment world may include Customized Market Analysis (CMA), International Trade Administration (ITA) and Market Access Compliance (MAC)); and
 - Additional government resources, such as the Embassy or consulate or local Chambers of Commerce in the foreign country and even expatriate groups, may be able to assist.
- Quickly build a network. Establishing a network of people wherever you plan to engage in business will be essential. You will be well served by having one or more highly trusted local contacts that can make introductions, navigate the system and offer you credibility.
- How do you accomplish all of these "best practices"? Do your research and use common sense.

A. Recent Developments

- i. **One Recent Development in China in response to Global Market Situation** (*This is a summary (including some direct quotes) of a B&D Newsletter Article (April 9, 2009) by Angie Castille, Partner, International Group*)

Since the outbreak of the global financial crisis in 2008, an increasing number of foreign investment enterprises (FIEs) in China are downsizing their Chinese operations to deal with

declining sales. In the U.S., downsizing generally means cutting unnecessary expenses, staff layoffs, reduced capital expenditures and wage freezes. These same measures implemented in China can pose real problems for FIEs. In the realm of capital reduction, unlike domestic Chinese enterprises, FIEs must be capitalized consistently at the discretion of the local government approval authorities and creates an administrative nightmare. In the area of layoffs, the Chinese government currently is struggling to preserve employee rights while keeping businesses alive to stimulate the economy. As a result, new labor regulations in those areas of China simplified required layoff procedures and relaxed government controls to make layoffs easier. Nevertheless, any FIE interested in implementing layoff plans should be prepared to negotiate in advance with the local Chinese government officials to avoid any potential adverse impact. Another key area is Transfer Pricing Issues. The Chinese government has stringent foreign exchange control rules that are strictly enforced. Typical agreements (i.e., service, licensing, management or technical service agreements, etc.) put in place between a foreign parent company and its affiliated Chinese company are being scrutinized to ensure they comply with transfer pricing rules under Chinese tax law. An "unchecked" agreement risks rejection from the local SAFE or tax bureau that may result in freezing movement of funds from the FIEs foreign accounts to its Chinese currency accounts. To increase the chance of approval, FIEs and their foreign shareholders should consult with competent counsel to establish contractual fees that meet transfer pricing standards. Advanced planning can prevent interruption of crucial cash flow to and from China.

ii. Internet Gambling

Internet gambling has recently gained heightened international attention due to an extended dispute between the United States and Antigua. In the early 2000s, Antigua was experiencing a decrease in its gaming industry, an effect it argued was caused by "an increasingly aggressive strategy of the U.S. to impede the operation of gaming companies in Antigua." In 2003, Antigua took the position that the U.S.'s anti-Internet gambling legislation (particularly, the Unlawful Internet Gambling Enforcement Act¹) violated the General Agreement on Trade in Services (GATS), a position that was validated by subsequent WTO decisions. When the GATS came into force in 1995, each signatory member created a schedule of commitments describing the extent to which they were willing to participate in each individual sector. After the WTO and appellate bodies ruled in Antigua's favor by concluding that the GATS did extend to "gambling and betting services" and that the U.S. was failing to provide Antigua acceptable treatment, the United States in 2007 decided to forego further appeals and withdrew from its commitments under the GATS related to Internet gambling.

The U.S.'s position is a losing situation for smaller international players. It is unlikely that any retaliatory measures by Antigua would have any significant effect on the U.S. economy. Given that, countries with large Internet gambling service providers (or who hope to become large Internet gambling hotspots) should think carefully about the effect the U.S.'s continued anti-Internet gambling stance will have on their industries.

¹ The UIGEA prohibits financial intermediaries from making payments to Internet gambling sites and prohibits Internet gambling operators from accepting money related to any online gambling that violates state or federal law.

iii. United States Taxation of Foreign Music Acts

Foreign entertainers and athletes who earn income in the United States should pay careful attention to their income to avoid unnecessary penalties and consider structuring their acts in a way to lessen their overall tax burden. The IRS has a special unit dedicated to examining concert revenues to track performances by foreign musicians in the United States, so even smaller acts should consider the tax consequences of their performances. Generally, by filing a Central Withholding Agreement (CWA), an act will have their tax burden reduced to 30% of their non-resident net income. However, if a CWA is not filed, the act may be taxed on 30% of their gross income. Depending on factors like touring expenses, this difference could be significant.

Many entertainers have found that the Netherlands is a favorable place for tax shelters. Indeed, the Rolling Stones are reported to have two private Dutch foundations created to enable them to transfer their assets, tax-free, to their heirs upon their deaths. Many entertainers are now taking advantage of holding companies in similar ways as have multinational corporations.

Another approach taken by foreign acts is to utilize loan-out agreements while touring in the U.S. A loan-out agreement is "an arrangement whereby an employee of one company is loaned to another company to perform services for the latter. [...] [C]ompensation for the services is paid to the lending company rather than the employee." The key to this structure is to create a true employer-employee relationship, including a right of the employer to control the artist.

Tax burdens and taxation under different jurisdictions is dependent on whether the income is treated as royalty income or performance income.

Royalty Income: Under the U.S. Model Treaty, the tax treaty the U.S. uses as its starting point when negotiating tax treaties with other countries, provides that royalty income is taxed based on the entertainer's residence. However, entertainers should note that royalty earnings that flow from "fixed" or permanent" U.S. establishments (for example, a California home with a recording studio) will be subject to U.S. taxation.

Performance Income: Under the U.S. Model Treaty, performance income is taxed based upon the location where the entertainer performs its services. Thresholds are set within individual tax treaties defining the amount that will trigger U.S. taxation of performance income. The Model Treaty uses \$20,000 as its threshold.

iv. Patent Protection in India

While in the past India has taken a hands-off approach to protection of intellectual property, in connection with the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) it has increased its standards for patent protection. Amendments to India's Patents Act in response to TRIPS included stricter patent laws and a shorter time frame for the review and granting of patents. However, India still remains a less favorable jurisdiction for intellectual property protection. Piracy remains a considerable problem that does not appear to be going away any time soon. India has a relatively small budget for intellectual property, and the Indian

patent office and Indian judiciary have yet to strictly enforce patents on a systematic basis. Indian judges are not particularly well-versed in economic theory or well-trained on patent laws, and they have a tendency to issue rulings based on public opinion. In addition, reported patent cases are rare in India, and the Indian judiciary is generally unwilling to look to other jurisdictions for guidance. One promising sign from the Indian judiciary is the recent willingness to award substantial damages in infringement actions. In 2004, a court awarded Microsoft \$51,600 in an infringement action, which at the time was the largest damages award in Indian history.