IP HORGAN
Intellectual Property Lawyers

IPHORGAN LTD.
1130 Lake Cook Road, Suite 240
Buffalo Grove, IL 60089

Phone: (847) 808-5500
Fax: (847) 808-7238/7245
www.iphorgan.com
iplaw@iphorgan.net

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ACPA Sinks Teeth into Taster

In a recent cybersquatting lawsuit in the Northern District of California, Verizon Communications Inc. received a default judgment in the amount of $33.15 million, against an accredited ICANN registrar, OnlineNIC. Pursuant to the Anti-Cybersquatting Protection Act (ACPA), the judge awarded $50,000 for each of the 663 domain names that were in issue. The Judge determined that the domain names were unlawfully registered, and were either identical to or confusingly similar to Verizon's trademarks. The court opined that OnlineNIC's bad-faith registrations of Verizon-related domain names were designed to steer web users away from their attempts to access Verizon's legitimate websites.

In its complaint, Verizon had alleged that OnlineNIC had used a number of shell entities, fictitious business names, or alias personal names, along with privacy protection services that shield the WHOIS information, in an attempt to conceal the true identity of the registrant and OnlineNIC's involvement in the trafficking of domain names. Verizon also alleged that OnlineNIC, through its aliases, was engaged in the practice of "tasting," wherein a domain name is registered and then deleted within five days, in order to avoid paying for the registration fees when the domain name does not generate a sufficient profit from pay-per-click fees. In addition, OnlineNIC was alleged to have practiced "kiting", which is when one repeatedly registers, deletes, and reregisters a domain name within five days to avoid paying the registration fees. This activity was shown to have been repeatedly done by OnlineNIC through its various aliases, against Verizon and other well-known mark owners.

While a Uniform Domain-Name Dispute-Resolution Policy (UDRP) complaint can only achieve the transfer or cancellation of a domain name from a cybersquatter, the ACPA additionally allows for statutory damages ranging from a minimum $1000 to a maximum of $100,000 per domain name, depending on what the court considers just. In this instance, the judge settled on $50,000 per name against OnlineNIC, which did not appear in court to contest the matter. *continued on page 3*

Incomplete Bundle Costs a Bundle

Rights conferred by a U.S. Copyright registration are often referred to as a "bundle." Included are the rights to reproduce a copyrighted work; to prepare derivatives based upon the work; to distribute copies of the work; to perform the work; and to display the copyrighted work publicly. These rights are separable and can be sold, licensed or given away one at a time or all at once. The U.S. Copyright Act makes no distinction among the rights conferred and each is separately enforceable by its owner. Thus, if a party wants to acquire copyrights from another, it must make certain that it is acquiring all the rights it needs in order to use the copyrighted material for its intended purposes. Otherwise, a party may be unable to effectively use the copyrighted material.

Take the case of the upcoming film "Watchmen," which promises to be this spring's blockbuster action movie. "Watchmen" was first conceived as a graphic novel by Alan Moore and published by D.C. Comics. In 1986, Twentieth Century Fox

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Masters, Synchs and YouTube

On December 20, 2008, Warner Music Group ordered YouTube to remove all videos featuring music by its artists. The move came amidst the breakdown in negotiations to renew the now-expired licensing deal between Warner and Google, YouTube's owner, over Warner's compensation for licensing its music catalog for use on YouTube. Warner is reportedly dissatisfied with the revenue share it received under the prior contract, signed September 2006. The collapse could affect thousands of videos, as Warner is home to over fifteen labels, including Asylum, Atlantic, and Bad Boy, and as the contract also covered its Warner/Chappell division which is the third-largest music publisher in the United States. The specifics of the 2006 deal and the prospects for a renewed contract are largely a reflection of how the rights of copyright holders have been affected by music's transition into the digital era.

As physical album sales decline, copyright owners are demanding a larger share of profits made by media companies streaming their music online – from internet radio companies to video broadcasting companies such as YouTube. Just as other technological advances have in the past, the internet has forced courts to think about how to best protect the "bundle of rights" granted to copyright owners in light of this new setting.

When music is played or distributed online, there are four primary licenses that must be considered in order to avoid infringing the rights of the copyright owner, be it a composer, publisher, or recording artist. First, there is the performance license, which compensates the copyright owner for licensing its right to publicly perform the work, and enables the licensee to broadcast the music to the public. Second, there is the mechanical license which is a statutory payment that compensates a copyright owner, usually the record company that commissioned the song, for allowing another to exploit its exclusive right to manufacture or distribute copies of the song. Third, when a sound recording is used, a negotiable master license must also be paid to compensate the copyright owner of the sound recording, usually a record company. For example, if rather than using "Blue Suede Shoes" written

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Masters *(continued from page 1)*

and first recorded by Carl Perkins, a user wishes to use “Blue Suede Shoes” as recorded by Elvis Presley, a master license must be obtained from the owner of that specific recording. Finally, there is a negotiable synchronization or “synch” license which compensates the copyright owner for allowing another to exploit its exclusive right to reproduce a musical composition in connection with a visual image, such as a motion picture, a video, or an advertising commercial.

In a typical scenario where music is used as or in content posted online, it is the individual person posting the content who is responsible for properly obtaining the appropriate rights to use it, be it a performance license, mechanical license, synch license, master license, or all of the above, depending on the use. The Digital Millennium Copyright Act contains a safe harbor which exempts online service providers, such as Google’s YouTube, from claims of copyright infringement provided certain conditions are met.

The deal between Warner and Google was intended to relieve the burden of YouTube’s users to obtain copyright holder’s permission, making it the responsibility of Google instead. Under the deal, Google gained an entire catalog of music which could be used by its users (subject to certain conditions), and Warner was relieved of the difficult task of tracking individual infringers and given exposure for its artists. The contract, however, only concerned the synchronization and master licenses. The mechanical license was not involved because it is a non-negotiable statutory amount which is typically gathered by a mechanical royalty collection group, such as the Harry Fox Agency, which then distributes the earnings to the copyright owners, usually the record company that commissioned the song. Thus, Google’s obligation was statutory and out of reach of any contract with Warner. Performance royalties were not subject to the contract either because these royalties are collected by public performance collection agencies, such as BMI, ASCAP, or SEASAC, which issue blanket licenses to use their entire catalogs and likewise thereafter distribute the royalties to the copyright owners. Thus, any money collected by Warner as a result of its contract with YouTube went towards the negotiated payments for licensing master and synch rights to Warner’s catalog, compensating Warner, as copyright owner, for giving up its exclusive right to use its sound recordings and synch any of the music it owns with the video content posted on the site.

This December, however, Warner stated that it can no longer accept the terms of the prior contract because they do not fairly compensate recording artists, labels, or publishers for licensing their rights. Under the revenue-sharing deal signed in 2006, Warner became the first music label to agree to license its entire catalog to YouTube. Prior to the internet era, licenses for particular songs were individually negotiated, for the most part, so this deal, which was more akin to the blanket licenses issued by organizations such as ASCAP to license performance rights, was a brand new concept. Under the deal, in exchange for licensing these rights, Warner received a share of the advertising revenue earned by YouTube from streaming Warner’s music videos as well as user uploaded videos incorporating audio and audiovisual works belonging to Warner. In addition, Warner received a per-play payment amounting to less than a penny for every video viewed.

To get the 2006 deal off the ground, YouTube had developed a content identification and reporting system offering Warner, and ultimately other labels, tools for identifying copyrighted content on the YouTube’s website, including use of a label’s music videos and use of its songs in homemade user content. The system provides labels with the opportunity to authorize or restrict certain uses of their works within user-created content, and a system for tracking and recording royalties. Several other labels followed in Warner’s footsteps shortly after its 2006 deal was reached, including Universal, Sony BMG Music, and EMI Group Ltd.

The dispute over whether the deal actually provides adequate compensation is likely a direct effect of the fact that companies like YouTube are growing. Labels, such as Warner, likely considered their initial agreement to be an investment. While it may not have been clear whether they would profit in the beginning, it was clear that there was definite potential for growth in the online music industry. Warner argues that it is only fair that its share is increased as profits have increased. YouTube’s supporters would defend that the fee for each video watched on YouTube which is paid to labels such as Warner may actually be costing the site money as not all videos are ad-supported, and thus revenue generating. Moreover, they point to the fact that, technically, Google is not legally obligated to pay Warner anything, because the contract has expired and Google is protected by the DMCA safe harbor provisions.

Ultimately, many industry insiders would agree that it is in the best interests of both parties to work out a deal, as both parties benefit. Media companies benefit because the deal pleases its users, who may use copyrighted songs in their videos and leave the complicated copyright issues up to YouTube. For Warner and other recording firms, a contract provides a new way to compensate copyright owners in the face of increased and virtually untrackable use of their works online. Having a contract in place saves these companies the time and money involved in seeking out and dealing with individual (mis)users of their content, and provides great exposure for their artists.

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ACPA *(continued from page 1)*

Typically, a UDRP is a quicker and more cost-effective method of obtaining the transfer of a domain name, than an ACPA litigation in Federal Court. An ACPA action also requires that a trademark owner be able to obtain personal jurisdiction in the U.S. against the defendant, while a UDRP action can be brought against a registrant in any location. If personal jurisdiction does not exist for an ACPA action, or the domain name owner cannot be found, an 'in rem' action could be brought if the registry, such as that relating to .COM domain names, is located in the United States, although the remedy is then limited to the transfer, forfeiture or cancellation of the domain name, without any monetary damages.

Although OnlineNIC is listed as an accredited Registrar with ICANN for registering domain names, Verizon has been unable to locate the company at OnlineNIC's listed address in California. The alleged aliases list addresses mainly located in China. Whether Verizon is able to collect the monetary award or is merely able to acquire or delete the subject domain names remains to be seen, but trademark owners may breathe easier because the significance of the dollar amount of the judgment will act as a deterrent to other registrars or registrants who engage in cybersquatting.

Incomplete Bundle *(continued from page 1)*

(Fox) obtained an option to purchase D.C. Comics' rights in "Watchmen" and ultimately acquired same in 1990. Lawrence Gordon is an influential movie producer who wanted to make a film of "Watchmen." In 1991, Fox granted certain rights in "Watchmen" to one of Mr. Lawrence's production companies, but retained the right to distribute any film ultimately produced. In 1994, Fox and Gordon entered into an agreement called a "Turnaround Notice." This agreement essentially granted Gordon the right to acquire Fox's interest in the "Watchmen" film project for a set price.

Time went by and no film was produced. Gordon, holding the rights to produce a "Watchmen" film, worked on and off with developers, script writers and the like, but there was no broad interest in filming. At no time did Gordon or any of his companies exercise their right under the Turnaround Notice to buy-out Fox's rights in the project. Ultimately, Warner Bros. agreed to produce "Watchmen" with Gordon. The final production budget for the film is approximately $150 million. The film is set for a March 9, 2009 U.S. release distributed through Warner Bros. Ultimately hundreds of millions in box office receipts, DVD sales and merchandising are anticipated.

Fox brought suit against Gordon and Warner Bros., alleging, among other theories, copyright infringement. Fox claimed Gordon's failure to buy out its rights under the Turnaround Notice left Fox with the unfettered right to distribute any "Watchmen" film, and that distribution of the film by Warner Bros. constitutes infringement of Fox's rights. Though there has been no final resolution of the litigation and no formal ruling has issued yet, a U.S. District Court Judge in Los Angeles has issued an advisory opinion indicating he agrees with Fox's argument and unless Fox and Warner Bros. can come to some agreement in the next 90 days, the film's release may be delayed.

Though there are many very technical facts to consider and ultimate resolution of the case determines the interpretation of several complex Hollywood-specific contracts, the import is clear. Since copyrights are in the nature of a bundle of separable rights, when obtaining or selling copyrights, whether in the context of a film production agreement or from a freelance photographer, a party must make certain all relevant rights are obtained and documents relating to same are clear.

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