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NEWS ALERT: Supreme Court Upholds Copyright Extension Act

On January 15, 2003, the Supreme Court of the United States, by a 7–2 majority, upheld the 1998 Sonny Bono Copyright Term Extension Law, which grants an additional 20 years of copyright protection to copyrighted works. Motion picture and publishing industries applauded the decision in *Eldred v. Ashcroft* and breathed a great sigh of relief. Without this extension, works such as Disney's original copyright for the Mickey Mouse character, certain Ernest Hemingway books, and some early movies, including the 1928 film featuring the first Mickey Mouse character, "Steamboat Willie," as well as *Gone With the Wind* and *The Wizard of Oz*, would soon expire.

Under the Copyright Extension Law, generally¹ the terms of copyright are as follows:²

- For works first published prior to 1922, the copyright has expired
- For works first published from 1923–1963, the copyright lasts for 95 years from publication provided the work was registered with the U.S. Copyright Office and renewed after 28 years³
- For works first published from 1964–1977, the copyright lasts for 95 years from publication with no registration required⁴
- For works first created in 1978 or later, the copyright lasts for the life of the author plus 70 years, or for works "made for hire" (a technical term defined by statute), the copyright lasts for 95 years from first publication or 120 years from creation, whichever first expires, with no registration required.

The first U.S. copyright law was enacted in 1790 and gave protection for just 14 years from the date of publication, though this

term was renewable for an additional 14 years if the author was still living after the first term. The terms have been extended numerous times by Congress, most recently to more closely align with a 1993 European Union directive aimed at harmonizing the law of many countries. The Extension Law passed in Congress without a single dissenting vote.

Only about 2% of the copyrighted books, songs and films that were previously due to expire soon have any commercial value, according to a study quoted by dissenting Justice Stephen Breyer. Nevertheless, that 2% earn some \$400 million a year in royalties.

The plaintiff, Eric Eldred, a retired Navy computer engineer who runs a Web site offering free access to thousands of literary works, challenged the Extension Law as limiting free speech rights under Section 8 and the First Amendment of the Constitution, the former of which grants authors exclusive rights over their works "to promote the progress of science and useful arts ... for limited times." Nevertheless, movie studios said they needed longer copyright protection to help defray the expense of restoring classic films for videos and DVDs. Further, heirs of noted authors and composers such as the Ira and George Gershwin Foundation and the estate of Kurt Weill passionately supported the law.

The impact of the Extension Law is to maintain protection for a relatively few but lucrative works for an additional 20 years, and to necessitate often substantial efforts in clearing rights to utilize many mid-20th Century and older works. ■

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An Opportunity and a Minefield for the Trademark Owner: Europe's New Design Law

A new European Community-wide design law will affect virtually every company doing business in the European Community (EC). The protection granted is broad and applies to corporate logos, packaging, promotional materials, and typeface, as well as to the products themselves.

The law protects an unregistered design from being copied for three years from the date it is first "made available" to the public in the EC. Beginning this April, owners may apply to register these designs. The registered Community Design will give a monopoly right for up to 25 years from the filing date.

The law defines "design" as "the appearance of the whole or a part of a [product's features], in particular, the lines, contours, colors, shape, texture and/or materials of the product or its ornamentation." The word "product" includes assembly parts as well as "packaging, get up [trade dress], graphic symbols and typographic typefaces but excluding computer programs." In other words, the law will protect virtually all features of a product's appearance except those which are dictated exclusively by the product's function. It is expected to cover even items such as computer icons and logos that traditionally have been protected, if at all, only by trademark law.

Only "new" designs will be protected by this law. "New" means those not already "made available to the public." For a design to be considered "made available to the public," it must be shown that it "reasonably could have become known in the normal course of business to those in the particular industry in the EC. Because of the uncertainty of how this can be interpreted, it will be wise to apply to register the design before disclosing it or to disclose the design first in the EC. There is a 12-month grace period after disclosure for the designer to file its application for registration of the design.

The broad protection to be given the Community Design will be a very powerful commercial tool. It confers the exclusive right to use the design (and those designs having a similar overall impression) regardless of the differences in the goods and services to which the respective designs are applied. For example, a design for a missile could be used to keep a similar design from being used as a toy. Likewise, a design for a logo for printing services could be used to stop use of a similar design for banking services. This is a major difference from trademark law. In Europe, trademark law generally grants protection to a registered mark only when there is likely to be consumer confusion. For an unregistered trade-

Chairman's Message

Welcome to the Winter 2003 issue of the *Thelen Reid & Priest Intellectual Property/Trade Regulation Journal*. Once again we have a number of reports, updates and comments that I think you will find informative and topical.

I want to take this opportunity, however, to let you know about a new organizational structure for Thelen Reid's IP and Trade Regulation Group. We have established this structure to strengthen our abilities to service clients most efficiently on a nationwide, cross-office basis. Thus, we have established six practice teams:

- The **Patent, Trademark and Copyright Team**, which will focus on non-litigation matters, and will be headed by **Dave Ritchie** of our Silicon Valley office and **Lynn Perry** from San Francisco;
- The **Patent Litigation Team**, which is headed by **Ken Nissly**, the managing partner of our Silicon Valley Office;
- The **Copyright, Trademark and Unfair Competition Litigation Team**, which is headed by **David Aronoff** from our Los Angeles office, **Tom Lane** from New York, and **Rob Weikert** from San Francisco;
- The **Technology and Internet Litigation Team**, which is led by **Dean Morehaus** in San Francisco and **Paul Winick** in New York;
- The **Antitrust Team**, which is guided by **Bob Pringle** in San Francisco and **Gerry Zingone** in our Washington D.C. office; and
- The **Licensing and Transactions Team**, which is led by **Rob Matlin** and **Joe Mello**, both in our New York office.

In addition, **Bob Krebs** has agreed to serve as West Coast co-chair of the Group, and his assistance in the management of our resources will be instrumental.

In all, I think this new structure will help us to continue delivering the highest quality legal services in the most efficient and cost-effective ways. I also think it will allow us to not only keep up with, but be ahead of, the developments that will invariably occur in the coming year in the law and in the various industries we service.

Please do not hesitate to contact any member of our Group for further information.



Sincerely,

Richard S. Taffet

Chair, IP and Trade Regulation Practice Group

mark in Europe, the standard for infringement is typically that the alleged infringer has "passed off" its goods to consumers as being those of the mark's owner.

The Community Design application process promises to be relatively quick, easy and inexpensive. Applications are examined only for formalities, not for novelty or similarity to other designs. Registrations are anticipated to be issued within three months of filing the application. Filings will be made to the same office that registers EC trademark applications, the Office for Harmonization in the Internal Market in Alicante, Spain (the OHIM). To reduce cost, it will be possible to apply for several designs in one application. Applications can be lodged now, and will be accepted beginning April 1, 2003.

The Community Design law raises new risks, however. It will be virtually impossible to search in advance for unregistered designs. Moreover, applicants may request that their application not be published for up to 30 months. This means that other design owners will have no effective way of completely searching design applications filed for as long as up to three years. Further, an infringement action can succeed against someone who did not even know of the existence of the design.

It is therefore advisable to register each of the following as Community Designs, regardless of whether the owner also plans to register them in the EC as trademarks: product designs, packaging designs, company logos, trademarks and business names featured in stylized lettering, and other design features of packaging and advertising. It is also wise to make sure that relevant agreements provide that companies own the Community Design rights in artwork and product designs being created for them, as well as applicable copyright and trademark rights.

In many cases, the Community Design will provide a broader scope of protection than existing trademark rights. Therefore it is important not to overlook this important right before adopting new designs and stylizations. ■

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***Pavlovich*: California Court Decides Posting of DVD Code on Internet, with Knowledge of Potential Injury to Industry, Not Sufficient for Personal Jurisdiction**

Recently, in *Pavlovich v. Superior Court of Santa Clara County*,¹ the California Supreme Court ruled that California did not have personal jurisdiction over a defendant whose only contact with California consisted of his posting of a DVD decryption code on the Internet. This is significant, because the Supreme Court had never before considered the scope of personal jurisdiction based solely on Internet use.

In *Pavlovich*, DVD Copy Control Association (DVD CCA), a nonprofit trade association linked to the motion picture industry, sought injunctive relief against Texas resident Matthew Pavlovich. Pavlovich, who is a champion of the "open-source" movement, posted the source code of a program called DeCSS on a non-commercial Web site run by the LiVid Video Project. The goal of LiVid was to "improve video and DVD support for Linux and to...combine the resources and efforts of the various individuals that were working on related things."²

DeCSS allows users to decrypt and copy the data contained on DVDs. DVD CCA's complaint alleged that Pavlovich misappropriated its trade secrets by posting DeCSS on the Internet, because the "DeCSS program...embodies, uses and/or is a substantial derivation of confidential proprietary information which DVD CCA licenses...."³

Pavlovich filed a motion to quash service of process and contended that California lacked personal jurisdiction over him. Pavlovich has never lived or worked in California. He has never owned property in California, and neither he nor his company ever solicited any business in California. Accordingly, Pavlovich maintained that he did not have sufficient ties with California to justify a finding of personal jurisdiction there.

DVD CCA asserted jurisdiction was proper because Pavlovich "misappropriated DVD CCA's trade secrets knowing that such

actions would adversely impact an array of substantial California business enterprises" like the motion picture industry, the consumer electronics industry and the computer industry.⁴

In a 4-3 decision, the Supreme Court set out a three-part test to determine whether it had jurisdiction over *Pavlovich*: First, the defendant must have purposefully availed himself of forum benefits. Second, the controversy must be related to the defendant's contacts with the forum. Third, asserting personal jurisdiction over the defendant must comport with notions of fair play and substantial justice. The Court's decision focussed on the first part of the test and it applied the *Calder v. Jones*⁵ "effects test" to determine purposeful availment.

The *Calder* effects test allows the court to exercise jurisdiction over the individual defendants based on the "effects" of their conduct in California. Pavlovich's Web site did not have sufficient effects on California so that the court could exercise personal jurisdiction over him. The court pointed out the fact that the Web site merely posted information and had no interactive features. Further, there was no evidence that any California resident ever visited or downloaded the DeCSS source code from Pavlovich's site. The court found that Pavlovich's alleged "conduct...in posting [a] passive Web site on the Internet is not by itself sufficient to subject him to jurisdiction in California."⁶ The court was not persuaded by DVD CCA's argument that Pavlovich should have known that his tortious conduct might harm certain industries in California. The court found that the knowledge of potential harm to an industry in general, but not to a specific and identifiable plaintiff, is not by itself sufficient to establish purposeful availment under the effects test.

Justice Janice Brown explained: "Indeed, such a broad interpretation of the effects test would effectively eliminate the purposeful availment requirement in the intentional tort context for select plaintiffs. In most, if not all, intentional tort cases, the defendant is or should be aware of the industries that may be affected by his tortious conduct.... Indeed, DVD CCA's interpretation would subject any defendant who commits an intentional tort affecting the motion picture, computer or consumer electronics industries to jurisdiction in California, even if the plaintiff was not a California resident. Under this logic, plaintiffs connected to the auto industry could sue any defendant in Michigan, [and] plaintiffs connected to the financial industry could sue any defendant in New York...."⁷

While the Court declined to exercise jurisdiction over Pavlovich in this case, the Court noted the narrowness of its decision. The Court concluded that in a case such as this, where the only evidence suggesting that the defendant aimed its conduct at California is the defendant's mere knowledge that his conduct might harm California industries, that knowledge alone is insufficient to establish personal jurisdiction over the defendant. The dissenting justices would have found that Pavlovich had sufficient minimum contacts with California that he could reasonably anticipate being hailed to court there.

This case is a welcome victory to advocates of civil liberties on the Internet. Others may feel that the case sanctions the conduct of tortfeasors who commit wrongful acts through the Internet because it limits the jurisdictions in which Internet tortfeasors can be brought into court to defend their actions. One can only guess how the law will continue to develop. If the narrowness of the Pavlovich holding is any indicator, the Court is probably going to slowly develop this novel area of law on a case-by-case basis. This case is likely only the first of many cyber-jurisdiction cases that will come before the California courts in the coming years. ■

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Excerpts from the *California Lawyer* Roundtable on Patent Law—November 2002



Ken Nissly

With the U.S. Patent and Trademark Office celebrating its bicentennial this year, it's obvious that patents have long been part of American commerce. But the legal enforcement of patents has varied widely over 200 years, evolving even in the last six months.

*Recent court decisions in patent law spurred much of the discussion at the California Lawyer roundtable on intellectual property. The participating patent litigators and prosecutors included two Thelen Reid attorneys, **Kenneth L. Nissly** and **Robert E. Krebs** among others from leading firms.*



Bob Krebs

MODERATOR: The Federal Trade Commission and Department of Justice held hearings on marketplace competition versus intellectual property this year. Why is this a hot topic now?

NISSLY: This is clearly an area where the law will continue to develop, regulating the interface between competition principles and intellectual property rights and developing rules that will guide us on a going-forward basis.

MODERATOR: *Festo* is also the most important patent case decided by the U.S. Supreme Court this year. Where does patent law stand in the wake of this decision?

KREBS: The *Festo* case is a wonderful example of a court struggling with issues relating to the narrowing of the patent claims during prosecution of an application. The court said that where a patentee has ceded or narrowed claims in view of the prior art, those narrowing amendments may be binding upon the patentee.

Festo emphasizes the importance of carefully preparing the claims in a patent application. Clearly, the primary objective is to claim as broad a territory as possible, to gain as broad a coverage as possible. But in view of *Festo*, thought must be given to writing the claims in ways that will survive the examination procedures of the Patent Office without substantial amendment.

NISSLY: The *Festo* decision is going to increase the cost of patent litigation. The rebuttable presumption means that it's very difficult to dispose of a case now on a summary judgment motion. There's a much higher chance of getting a doctrine of equivalents case to a jury, and that increases the cost of litigation.

It also changes the positions of the parties in settlement discussions, because now one can't be certain that they'll be able to get rid of a doctrine of equivalents claim on a motion. The plaintiff can say, with justification, "Look, you're not going to be able to keep it away from the jury." That has value in the matrix of settling cases.

MODERATOR: What about the value of patents in the wake of *Festo*?

NISSLY: People need to understand that, typically before patent litigation is commenced, there is a series of negotiations. The patents are presented to the proposed defendant and licenses are sought.

In the course of those discussions, you will make arguments that the patent covers the product literally, and if it doesn't cover it literally, it covers it under the doctrine of equivalents. Given the extremely high cost of patent litigation, those kinds of discussions have weight. That means, in my view, that patents are perhaps more valuable after *Festo* than before.

There is also a push to reduce the power of the Federal Circuit in the patent arena. We had a Supreme Court case come down this year (*Holmes Group, Inc. v. Vornado Air Circulation Systems, Inc.*, 122 S. CL 1889) that said not every patent case will go to

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the Federal Circuit. If the patent claim is raised in a counterclaim, that case will go to a regional circuit.

KREBS: Another recent decision related to the doctrine of equivalents is the *Johnston* decision (*Johnson & Johnston Associates, Inc. v. R.E. Service Co., Inc.*, 285 F.3d 1046, Fed. Cir. 2002). The case involved a patentee attempting to stretch his claims to encompass subject matter that was not originally claimed. The Court of Appeals decided against, in essence, rewriting the claims of a patent. From a patent attorney's standpoint, the decision in the *Johnston* case again emphasizes the importance of carefully preparing claims in the original application and providing several different sets of claims, each with a different view of the invention.

PARTICIPANT: Both *Festo* and *Johnston* are also going to increase the cost of patent prosecution. It's going to take longer to draft claims and you're going to draft more claims, so the cost of a patent application is going to increase.

KREBS: However, by writing the claims creatively, the value of a patent in any subsequent litigation can be increased by, for example, invoking the "entire market value" rule. This rule allows a patentee to recover infringement damages for the value of an entire product or system, even though the patented invention is only one component. There was an interesting recent case (*Lucent Technologies, Inc. v. Newbridge Networks Corp.*, 168 F.Supp. 2d 181, D. Del. 2001) where the trial court awarded damages under the entire market value rule, even though the patented invention was only an optional part of the larger product.

MODERATOR: One area of conflict has been the development of industry standards that require licensing of patented technologies.

KREBS: A related question is the question of "royalty stacking," because many times there are a multitude of patents on the same standard, owned by different parties. Each party may only demand a reasonable royalty. But when you start adding up those royalties, four percent to Party A, five percent to Party B, and so forth, you get to a prohibitive total royalty for any company that wants to enter the market.

NISSLY: But in many industries, unlike the MPEG situation, nobody is in a position economically to come in and really dictate a solution that's going to make the various constituents happy. This issue of standard-setting, and the antitrust and IP laws, is one I think we're going to be fighting about for years.

MODERATOR: Another area where there's an arguable need for wide dissemination of intellectual property is in health care, yet the patent law trends there are quite different.

NISSLY: And unlike other industries such as electronics, the pharmaceutical and medical device companies have been very reluctant to cross-license each other, for various economic reasons.

KREBS: It's also common practice for the patent attorneys in the medical device and pharmaceutical areas to prepare "continuation-in-part" applications. These applications are basically directed to improvements upon a more basic patent and may have the effect of extending the life of the basic patent. However, caution must be exercised with those applications because they may result in an unlawful extension. ■

The Second Circuit Court of Appeals has decided two cases of first impression. In the trademark area, the Court decided an important limitation on *in rem* jurisdiction under the Anticybersquatting Consumer Protection Act. In copyright law, the Court decided that an author's right to terminate copyright grants survived a settlement agreement with a publisher that stipulated that the work was created "for hire."

Trademark/Cybersquatting

Mattel, Inc. v. barbie-club.com, 310 F.3d 293 (2d Cir. 2002)

The Second Circuit Court of Appeals has held that the Anticybersquatting Consumer Protection Act ("ACPA"), Lanham Act Section 43 (d), provides *in rem* jurisdiction over a disputed Internet domain only in the judicial district where the domain name registrar, registry or other authority is located.

Lanham Act Section 43 (d)(2)(A), 15 USC §1125 (d)(2)(A), permits a trademark owner to bring an *in rem* action for cybersquatting against defendant domain names in the judicial district in which the domain name registrar or other registering authority is located. A companion section, Section 43 (d)(2)(C), deems the "*situs*" of a domain name to be in the judicial district in which: (i) "the domain name registrar...that registered or assigned the domain name is located"; or (ii) where "documents sufficient to establish control and authority regarding the disposition of the registration and use of the domain name are deposited with the court", 15 USC § 1125 (d)(2)(C).

Mattel Inc. had filed an *in rem* action in the Southern District of New York against various domain names that had been registered through a registrar located in Baltimore, Maryland. Using the procedure provided in Section 43 (d)(2)(D), after filing the action in the Southern District of New York Mattel then required the domain registry to deposit the "registrant's certificates" with the Southern District Clerk. Mattel argued that the deposit

of the certificates conferred *in rem* jurisdiction on the Court because the deposit established the “control and authority {of the court] regarding...the disposition of the registration and use of the domain name” under Section 43 (d)(2)(C)(ii).

The District Court, on motion made by the domain name, dismissed the case for lack of *in rem* jurisdiction. The Second Circuit affirmed. The Second Circuit held that Section 43 (d) permitted an *in rem* action to be brought only in the judicial district where the domain name registrar or other authority was located, as provided in Section 43 (d)(2)(A). Analyzing the structure of the ACPA, the Circuit reasoned that the provisions of Section 43 (d)(2)(C) were not intended by Congress to provide a basis for jurisdiction. Rather, that section provided a series of procedural steps that a domain registrant or authority was required to take after an *in rem* proceeding had been commenced in a district identified in subsection (d)(2)(A). To hold otherwise, the Court reasoned, would nullify the specific procedure for *in rem* filing in Section 42 (d)(2)(A) by effectively creating nationwide *in rem* jurisdiction in subsection (d)(2)(C). The decision is based purely upon statutory construction. The Court declined to reach constitutional issues of due process and comity that had been discussed by the district court.

Copyright

Marvel Characters, Inc. v. Simon, 310 F.3d 280 (2d Cir. 2002)

Section 304 (c) of the 1976 Copyright Act, 17 USC §304 (c), gives an author the right to terminate copyright grants “notwithstanding any agreement to the contrary.” The Second Circuit Court of Appeals has now held that the §304(c) right to terminate is not limited by an author’s settlement agreement with a publisher that acknowledges that the work in issue was created for the publisher as a work for hire.

The case concerned *Captain America* comics authored by Simon and published by Marvel Comics, beginning in 1940. The legal issue arose because of a tension between the 1909 and 1975 Copyright Acts. The 1909 Act, as amended, granted a copyright term for the works in issue that expired in 1968. In 1966 Simon sued Marvel claiming copyright in the

works. In 1969 the parties settled in an agreement in which the author acknowledged that the comics were created as works for hire. In the 1976 Copyright Act, Congress further extended the original copyrights on the works until 1999 and enacted the termination provision in §304 (c). In 1999, as the extended copyright term expired, Simon served termination notices under §304 (c).

In response, the publisher sued Simon for a declaratory judgment that the termination notices were invalid and that the publisher was the sole owner of the copyrights. The District Court rejected the publishers’ arguments for judgment based on *res judicata* and collateral *estoppel* grounds arising from the prior settlement agreement, reasoning that the termination right under the 1976 Act was separate from the rights compromised in the prior settlement. However, the District Court granted judgment for the publisher, reasoning that the acknowledgment of the works as works for hire in the settlement agreement prevented the author from exercising the termination right in §304 (c).

On appeal, the Second Circuit reversed, rejecting an argument that there was no meaningful distinction between the issue of authorship that was resolved in the settlement agreement and the termination right under §304 (c). The Court reasoned that the settlement agreement resolved prior claims, and precluded the author from making any further claim of entitlement to any benefits from the earlier copyright term. However, the Court observed that the right to terminate the grant of copyright to the publisher did not exist when the prior settlement was reached and could not be effected by that settlement.

The Court then went on to address the issue of first impression in the case: whether an agreement made after a work’s creation and declaring the work to be a work for hire (here, the settlement agreement) was an “...agreement to the contrary” under §304(c)(5). Finding the text of the statute to be unclear on the point, the Court looked to the legislative history. The Court found that the clear purpose of Congress in enacting the section was to prevent authors from waiving their termination rights by contract. The Court also reasoned that such a reading of §204(c) was consistent with prior interpreta-



tions of the work for hire provision of the 1909 Act. The parties’ characterization of a work in an agreement as one for hire has never been given controlling effect. Rather, the work for hire inquiry has been held to focus on the actual relationship between the parties. Thus, the Court observed, it was not bound by a settlement agreement that stated the work for hire relationship in conclusory terms, but did not state predicate facts of authorship to support a work for hire finding. Such a conclusory agreement would not be given collateral *estoppel* effect, although an agreement with such detailed factual findings in it could be. Given the lack of any binding prior finding of the facts relevant to the work for hire issue, the Circuit Court remanded the case for a jury trial on the issue of authorship. ■

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Proposed SEC Rules on Electronic Filing and Web Site Posting of Forms 3, 4 and 5

The Securities and Exchange Commission issued Release No. 33-8170 to propose rule and form amendments to require electronic filing and Web site posting by issuers with corporate Web sites, of beneficial ownership reports under Section 16(a) of the Securities Exchange Act. The Commission intends to adopt the amendments as soon as practicable before the July 30, 2003 date mandated by the Sarbanes-Oxley Act. In addition, the Commission proposed changes to the EDGAR system to facilitate electronic filing and rule changes to eliminate magnetic cartridges as a means of electronic filing.

The full text of the Release may be viewed at www.sec.gov/rules/proposed/33-8170.htm. The Commission requests that comments be submitted on or before February 10, 2003.

Background

Section 16 applies to every person who is the beneficial owner of more than 10% of any class of equity security registered under Section 12 of the Exchange Act and each officer and director of the issuer of the security (collectively, "reporting persons" or "insiders"). Upon becoming a reporting person, or upon the Section 12 registration of that class of securities, Section 16(a) requires a reporting person to file an initial report with the Commission disclosing the amount of his or her beneficial ownership of all equity securities of the issuer. To keep this information current, Section 16(a) also requires reporting persons to report to the Commission changes in this ownership or the purchase or sale of a security-based swap agreement involving these equity securities.

Accelerated Filing of Section 16 Reports

Prior to the new reporting deadlines now in effect pursuant to the Sarbanes-Oxley Act, insiders were required to file reports of transactions within 10 days after the close of the calendar month in which the change in

ownership or purchase or sale of a security-based swap agreement occurred. The Sarbanes-Oxley Act amended Section 16(a), for transactions on or after August 29, 2002, to require insiders to file reports of these transactions before the end of the second business day following the day on which the subject transaction has been executed, or at such other time as the Commission shall establish, by rule, in any case in which the Commission determines that such 2-day period is not feasible.

On August 27, 2002, the Commission adopted rule and form amendments to implement the accelerated filing deadline.

The Proposed Rule Amendments

Electronic Filing of Forms 3, 4 and 5

The Commission proposed to amend Regulation S-T to require insiders to file Forms 3, 4 and 5 on EDGAR (Rule 101(b)(4) of Regulation S-T currently permits such filings on EDGAR).

Web Site Posting of Forms 3, 4 and 5

The Commission also proposed to amend Rule 16a-3 under the Exchange Act to require an issuer that maintains a corporate Web site to post on its Web site all Forms 3, 4 and 5 filed with respect to its equity securities by the end of the business day after filing. An issuer would be permitted to satisfy this requirement by direct access or by hyperlinking to the reports via a third-party service, provided the following conditions are met:

- The forms are made available in the appropriate time frame
- Access to the reports is free of charge to the user
- The display format allows retrieval of all information in the forms
- The medium to access the forms is not so burdensome that the intended users cannot effectively access the information provided



- The access includes any exhibits or attachments
- The forms are accessible for a minimum of 12 months
- Access to the forms is through the issuer Web site address that the issuer normally uses for disseminating information to investors
- Any hyperlink is directly to the Section 16 forms (or to a list of the Section 16 forms) instead of to the home page or general search page of the third-party service.

The Commission stated its intention to make the Web site posting requirement become effective at the same time as the electronic filing requirement, but encouraged issuers to post Section 16(a) reports on their websites before the implementation date.

Rule 16a-3(h)

The Commission proposed to delete the “deemed timely filed” provision in Rule 16a-3(h) under the Exchange Act, effective at the same time the electronic filing requirement becomes effective.

Rule 16a-3(h) states that the date of filing is the date of receipt by the Commission. The proposed deletion would not affect this statement. However, the rule has a provision that states, in general, that a Form 3, 4 or 5 will be deemed timely filed if the filing person establishes that the form was timely delivered to a third party entity providing delivery services that guaranteed delivery of the filing to the Commission no later than the required filing date. This “deemed timely filed” provision was designed for paper filings and will no longer be needed once the electronic filing requirement is effective.

The proposed amendments would not alter the provisions governing the availability of hardship exemptions under Regulation S-T from the requirement to file by EDGAR.

Forms 3, 4 and 5

The Commission proposed some minor changes to Forms 3, 4 and 5 to facilitate the electronic filing provisions, as follows:

- Amend the introductory section before the General Instructions of Forms 3, 4 and 5 to delete the reference to IRS identification numbers (because IRS identification numbers are not useful for tracking as only some filers provide it).
- Amend the General Instructions to Forms 3, 4 and 5 to:
 - delete the statement that electronic filing is optional
 - add a statement making it clear that electronic filing is mandatory, absent a hardship exemption
 - add a note providing instructions for filing in paper pursuant to a hardship exemption.
- Amend Instruction 6 to Forms 3, 4 and 5 to indicate that if a filer runs out of space on the electronic form, the filer should put the additional information into a footnote, and if there is not enough room in the space provided for a footnote, the footnote should refer to



an exhibit to the form that contains the additional information.

- Amend Items 4 and 5 of the items before Table I of Form 5 to require that, when addressing the date as to which the form is filed, a day be specified in addition to, as currently required, a month and year.
- Amend the heading of column 9 of Table II of Form 5 to clarify that the reference to “year” is a reference to the issuer’s fiscal year, which will make the heading consistent with the heading of column 5 of Table I of Form 5.

Form ET

Currently, electronic filers may make electronic submissions either as direct transmissions, via dial-up modem or Internet, or on magnetic cartridge. However, the number of filers using magnetic cartridges is minimal. Therefore, the Commission proposed to eliminate magnetic cartridges as a transmission medium and to eliminate Form ET, the transmittal form that must accompany all magnetic cartridge submissions.

The Electronic Filing Procedure

By the time the provisions that require electronic filing of Forms 3, 4 and 5 become effective, a new on-line filing system will be effective. In its initial version, insiders and those who act on their behalf will be able to access the Commission’s Web site to fill out and submit the forms. When the new system is implemented, EDGARLink filing no longer will be available for these forms.

Some filers, either directly or through agents, may wish to create a customized form and file it as a “reduced content filing.” A reduced content filing will provide header information (*e.g.*, form type) and the data for manda-

tory fields that the Commission specifies. The Commission plans to announce the mandatory fields and technical filing requirements before the new system’s implementation to provide adequate preparation time.

In order to file, persons will need the same codes that are required to file today on EDGAR. Companies and other third party filing agents with the appropriate access codes will continue to be able to submit forms on behalf of insiders.

To access and file the forms through the Commission’s Web site, filers will have to begin by having valid EDGAR access codes and logging on to the site. A button on the menu will give filers the option to create on-line Forms 3, 4 or 5, or amendments to these forms. The system will not be able to provide a way to save an incomplete form on-line from session to session. The system will validate as many fields as possible while the filer fills in the form. Filers will have the chance to correct errors and verify the accuracy of the information, and an on-line help function will be available. The filer will be able to download and print the filing and add attachments before submission. Once the filing is submitted, the system will display the accession number of the filing or a message that says the accession number will follow in a return notification. A filer will be able to obtain a return copy of the form shortly after filing and also will be able to see the filing on the Commission’s Web site. ■

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Tiger Woods: The Use of Celebrity Images In Works of Art The Right of Publicity v. The First Amendment

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The likeness of a well-known public figure is a powerful image. Just as advertisers want their products associated with the image of Michael Jordan dunking a basketball, or of Tiger Woods swinging a golf club, artists have use of these images to convey their ideas. While Andy Warhol's "Marilyn" continues to provoke debate about our celebrity-driven culture, there is no questioning his premise: celebrities are icons, and icons make for powerful images.

While advertisers use the likenesses of well-known figures to boost sales of their products, it is well established that they can not do so without their endorser's permission. The reason for that requirement is twofold. First, courts recognize a right of privacy: that is, the individual's right to protect their image from use by others. Second, courts also recognize a separate right of publicity, a concept that has evolved over the last forty years from the right of privacy. The right of publicity is the antithesis of the right of privacy. It recognizes that a person's image has an economic value that is presumed to be the result of the person's own efforts and creativity, and it gives to each individual the right to exploit the value of their own image.

Artists use the likenesses of well-known individuals as a means of expressing messages within the content of their artistic creations. However, it would be disingenuous not to acknowledge that, in many cases, using the likeness of a well-known figure would likely raise the value or level of interest in a work of art. The issue this article addresses, then, is when an artist can incorporate a person's image into his or her work without running afoul of the right of publicity. Or, to phrase it another way, when can a person object to the inclusion of their image in an artist's creation?

An individual's rights of privacy and publicity in the use of their likeness are part of the laws of the various states and, as such, are not unlimited. The First Amendment to the Constitution assures freedom of speech, and, beyond any question, art is speech. Discussed below are the attempts by the courts to balance the artist's right of free speech and the subject's rights of privacy and publicity, and provide an answer to the questions raised above.

The Right of Publicity and the Human Cannonball

In 1977, the Supreme Court addressed for the first time the right of publicity doctrine in a case named *Zacchini v. Scripps*.¹ Hugo Zacchini, a performer known as "The

Human Cannonball", would perform an act in which he was shot from a cannon and land on a net some 200 feet away. A videotape of the entire 15-second act was shown during an evening news program without Zacchini's consent. In determining that the broadcast violated Zacchini's right of publicity, the Supreme Court established two key concepts that are still in effect today. First, the Supreme Court held that each state had the power to enact right of publicity statutes that could be crafted to protect not only a person's image, but their name, voice or other singular characteristics.² Second, The Supreme Court explained in *Zacchini* that First Amendment interests may override the right of publicity.

However, the Court did not fully explain how such a determination would be made. The Court did find that broadcasting his entire act had severely hurt Zacchini's economic interests, because those who saw it on television would have little incentive to pay a fee to see a live performance of the act. However, the Court also found that Zacchini's rights would not have been violated if something less than the complete act had been shown. Significantly, the Court did not indicate how much of the 15-second clip could be eliminated until the point was reached where the broadcaster's First Amendment rights would outweigh the right of publicity.



California, The Three Stooges and the 'Transformative' Test

It was the Supreme Court of California that eventually dealt directly with the difficult issue of the tension between The First Amendment's protection of an artist's use of an image and the subject's right of publicity. In *Comedy III Productions, Inc. v. Saderup*,³ the defendant, an artist, sold lithographs and T-shirts bearing a likeness of the Three Stooges reproduced from a charcoal drawing he had made. As an initial matter, the Court determined that because Saderup's drawing was an 'expressive' work, and not simply an advertisement or endorsement of a product, it was entitled to a higher level of First Amendment protection. Next, the Court found that celebrities have a public meaning, and that using their likeness in art helped express viewpoints or to promote debate on public issues. The Court also stated that works of art are protected by the First Amendment, even when expressed through non-traditional mediums such as T-shirts.

The Court then went on to balance the First

Amendment issues against the subject's right of publicity. The Court held that depictions of celebrities "amounting to little more than the appropriation of the celebrity's economic value are not protected expression under the First Amendment"⁴. In other words, a mere reproduction of the celebrity's likeness, no matter how skilled, does not qualify for First Amendment protection.

However, even while acknowledging the economic impetus behind the right of publicity doctrine, the Court declined to adopt the test suggested in the *Zacchini* case, by which economic harm would simply be weighed against First Amendment concerns to determine if a particular use of an image was precluded by the right of publicity. Instead, the *Saderup* Court reasoned that the test to use in determining whether a work of art depicting a well-known figure deserves First Amendment protection is if the work is 'transformative' in nature. According to the Court, a work is transformative if, in the artwork, "a celebrity's likeness is so transformed that it has become primarily the defendant's own expression rather than the celebrity's likeness."⁵

The *Saderup* Court then explained its newly formulated rule by stating that to be transformative, the use of the likeness by the artist must create something recognizably his own by contributing something more than a mere trivial variation to the work. Potentially adding to the confusion, the Court also observed that in determining whether a work is transformative, courts should consider whether or not the marketability and economic value of the work derives from the fame of the celebrity depicted.

By way of example, discussing Andy Warhol's work, the Court stated that through "distortion and the careful manipulation of context, Warhol was able to convey a message that went beyond commercial exploitation of celebrity images"⁶ and, thus, had created works that would likely receive First Amendment protection. Conversely, the Court held that because it did not discern any "... significant transformative or creative contribution" in Saderup's rendition of the Three Stooges, the work was not entitled to First Amendment protection and was in violation of the California right of publicity statute.⁷



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New York, New Rule

In *Hoepker v. Kruger*,⁸ a federal court in New York was called upon to decide whether a photograph of the plaintiff, cropped and used as part of a collage, violated her rights under the New York right of publicity statute. The court first held that a collage, like a drawing or painting, was a form of art entitled to full First Amendment protection. The court then acknowledged that under California's *Saderup* test, the collage was transformative enough to be afforded First Amendment protection. However, the New York court refused to adopt the *Saderup* test, stating that courts "should not be asked to draw arbitrary lines between what may be art and what may [not be]."⁹

Instead, the court offered a slightly different test, requiring a determination of whether the collage had primarily a 'public interest' aspect or a 'commercial' aspect. Presumably, this means that if the importance of the collage can be found primarily in its social usefulness as a work of art, it will receive First Amendment protection. Conversely, if its primary value lies in generating sales through the popularity of the depicted celebrity, the artist may be liable for a violation of the right of publicity statute. In spite of their different emphases, both the New York and *Saderup* tests contain the same essential, and difficult, element: they grant or deny First Amendment protection based upon a court's determination of the artistic nature of the work.

Tiger Woods In Ohio

ETW Corp. v. Jireh Publishing, Inc.,¹⁰ is a very recent case that has provided the latest ground for the debate between the First Amendment and the right of publicity. In *ETW Corp.*, Rick Rush, a "sports artist", created a painting sold as a limited edition print and a large edition lithograph that featured Tiger Woods in the center in several poses, including one "displaying that awesome swing" according to the artist's accompanying text. The painting, which celebrated Woods' 1997 victory in the U.S. Open, also depicted several past winners of the tournament superimposed over the leader board in the background, a caddie

and a golf scoreboard. Tiger Wood's exclusive licensing agent sued, claiming in part that the print violated Tiger Woods' right of publicity under Ohio law. The Ohio federal court rejected Wood's argument that the print was "merely sports merchandise" unworthy of First Amendment protection. Instead, the court found that the print sought to convey a message, and that message was a unique expression of an idea, rather than the mere copying of an image. Accordingly, the court decided that the print was protected by the First Amendment, and dismissed the case.

The case was appealed, and a decision by the Sixth Circuit Court of Appeals is expected soon. Belying the case's significance, the artist, Rush, is supported on appeal by briefs filed on behalf of the Newspaper Association of America, which represents over 2,000 newspapers, and by a group of over 70 law professors. Woods is supported on appeal by the estates of Frank Sinatra and Elvis Presley, the Screen Actors Guild, and the player associations for the National Football League and Major League Baseball.

Where do these cases leave the artist or publisher, or their counsel, when trying to decide whether to create or sell a given work? In light of the cases, it is clear that artists do enjoy the right to use a celebrity's image as part of their artistic creations. The best that can be said is that the more the art focuses and depends on the celebrity image, the more likely it will to run afoul of right of publicity statutes. On the other hand, the more clearly the work expresses an artistic theme and uses the celebrity image as part of that expression, the greater the comfort that the artist or publisher should have that the work is protected by the First Amendment. ■

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Endnotes

Copyright Extension Act page 1

1. Determining copyright terms can be very complex and often depends on a variety of factors.
2. These terms do not apply to unpublished works created prior to 1978, which have different terms.
3. Under certain circumstances, works whose copyright had expired before January 1, 1996 might have been restored.
4. Note that registration is required to file a lawsuit to enforce the owner's rights in the copyright.

Pavlovich page 3

1. *Pavlovich v. Superior Court of Santa Clara County* (Nov. 25, 2002, No S100809) _ Cal.4th _ [202 Cal. LEXIS 7959]
2. *Id.* at 3.
3. *Id.* at 4.
4. *Id.*
5. *Calder v. Jones* (1984) 465 U.S. 783.
6. *Pavlovich* at 14.
7. *Id.* at 19.

Tiger Woods page 9

1. 433 U.S. 562 (1977).
2. As a result, right of publicity laws vary from state to state. For example, while some states hold that the right of publicity terminates upon a person's death, at least one state allows the right of publicity to extend up to 75 years after the death of the individual. Clearly, artists must be particularly aware of the application and scope of the state statute they subject themselves to if they chose to incorporate a person's likeness into their work.
3. 25 Cal. 4th 387 (2001).
4. *Id.* at 400.
5. *Id.* at 406.
6. *Id.* at 408-9.
7. *Id.* at 409.
8. 200 F. Supp. 2d 340 (S.D.N.Y. 2002).
9. *Id.* at 352.
10. 99 F. Supp. 2d 829 (N.D. Ohio 2000).

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