Key Issues For User Of Multimedia

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Technological and legal questions are examined; traditional solutions not always appropriate

Multimedia will be important to all kinds of businesses. By "multimedia" I mean works that combine audio, video, graphics and text. However, reference to a "multimedia market" is misleading. Currently, multimedia is a collection of heterogenous technologies that permit the exploitation of existing works (and the creation of new works) in different formats and media. Multimedia is used to describe technologies that range from interactive television to videobooks. Although a great deal of attention has been focused on the consumer market, the business market is significant and swiftly growing.

Market Vision, a leading industry analyst, estimated recently that the multimedia market will increase to $23.9 billion by 1997.[1] Market Vision divides multimedia users in the U.S.A. into five groups:

- Business Users (21%).
- Dedicated Professionals (8%).
- Home Computer Users (3%).
- Educational Users (5%).
- Consumer Appliance Users (62%).

The needs of each of these users are quite different. For example, Business Users focus on training, presentations, communications and management. The Consumer Appliance User is more interested in entertainment, instruction, information and basic communications. The Education Users are interested in instruction and presentations. The diversity of these needs suggest the fragmented nature of the "multimedia industry."

The business market can be divided into several categories:

- Training.
- Advertising and marketing presentations.
- "Collaborative" computing to support videoconferencing and telecommuting.
- Marketing, such as point-of-sale.

These markets are not as visible or glamorous as some of the potential consumer markets, but they can be quite significant. One major computer manufacturer stated that it had sold over $500 million worth of equipment and software for internal business training. The training market ranges from interactive laser disk systems to instruct retail store detectives in reducing shoplifting to maintenance manuals on CD-ROM to assist aircraft maintenance engineers. A more visible business application of multimedia is its increasing use at trade shows and sales presentations. The technology underlying multimedia has created entirely new marketing opportunities: information kiosks such as those at car rental agencies that supply customized "maps" and coupon dispensers in retail stores.

The owner of content who is interested in exploiting it in this new market must focus on five key issues:

1. Understand the Technology. The content owner must understand the technology so that he can make intelligent choices about how to exploit his content. At the simplest level, he needs to understand that exploiting a book in multimedia may lead to multiple, rather than a single "product." This fact is due to the multiple "incompatible" platforms: a CD-ROM for a Mac computer will not run on a Windows computer. Consequently to fully exploit a book or other existing work, the content owner must recognize that the developer may have to create multiple products. In addition, software (and hence multimedia development) is still an art and not a science. If a developer is not able to complete a product, the content licensor cannot simply turn over the "demo" to another developer, he must ensure that he has access to the source code and design documents for the next developer to use. Without source code, the "demo" is useless.

2. Understand the Players. The multimedia industry is still young. Many developers are small and thinly capitalized. They may not have all of the capabilities needed to complete a project. They may be particularly naive about the legal issues entailed in obtaining rights for a major project. Under these circumstances, it is very important for the content owner to perform "due diligence" on a potential licensee. Does the developer still have the same team that created his last hit or have they left to start their own company? What distribution plans (and experience) do they have? What experience do they have with new platforms? Do they have proprietary tools which may make them more efficient? Given the number of platforms, from Windows PCs to Macs, it is a fact of life that most developers have expertise in a limited number of them. Thus, the content owner must be careful about licensing all electronic rights to a single developer. Content owners may also find that their distribution skills, particularly in direct marketing, far exceed those of the multimedia developer or new media "publisher."

3. Understand the Industry and its Deal Framework. Unlike more

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mature industries, the standards in the "multimedia" industry are still evolving. Many issues remain open: from ownership of copyright in the final product to royalty rates. The deal framework which is evolving draws on the traditions of several industries; software, film, record and books. This fluidity is made more difficult by the different expectations of the industries which are part of the multimedia industry: film companies may demand exorbitant advances for their content by not recognizing that most multimedia works sell in the 10,000s not the 100,000s of units.

4. Understand the Rights Available for Exploitation. The content providers must ensure that they have the rights to license into this electronic market. The film industry in 1994 continues to be involved in litigation about the rights to distribute films in videocassette form (as opposed to theatrical release) 30 years after VCRs were first sold. Yet these disputes will be simple compared to those that will arise in the multimedia industry. The videocassette version of a film is essentially the same as the version for theatrical release. Multimedia works, by their very nature, entail substantial changes to the underlying works. The recent suit by the National Writer's Union against a group of major publishers denying that the publishers have the right to publish their works online without an additional payment is merely the first in what will undoubtedly be many suits in this area. Content owners should carefully review their properties to determine their rights to exploit them in multimedia.

5. Understand the Business Goals and Strategy. Content owners need to determine their strategy in this new marketplace. Are they content to let others exploit their works and simply receive a royalty check? Or do they want to learn how to develop their own multimedia works internally after they learn from several third party development transactions? Content owners need to be sensitive to the rights that they need in the "multimedia" work. While they may be willing to let the multimedia developer retain most rights in the new material in the final work, they should seriously consider obtaining ownership of the interface (the way the work is presented on the screen) so that they can produce other multimedia products with a consistent "interface." The computer interface for a content owner may become as distinctive (and as important) in the multimedia field as the appearance of the cover of *Rolling Stone* is for that magazine.

The potential multimedia publisher faces two important hurdles in exploiting this opportunity, one technological and the other legal. The technological hurdle arises from the nascent state of technology in the industry. Similar to the battle between VHS and Betamax in the home video market, the market currently lacks widely agreed upon technical standards. This problem exists on several levels.

First, numerous incompatible platforms exist for multimedia works: Nintendo, Sega, Apple, IBM and UNIX-based workstations.

Second, the publisher must deal with several different operating system environments, even within many "single" platform markets. The IBM market includes three different operating system environments: DOS, Windows, and OS/2. In addition, Microsoft has introduced a new operating system, Windows-NT. The marketplace for UNIX-based workstations is even more fragmented, with many vendors using a different, proprietary version of UNIX. For example, DEC, IBM and Sun all use different, incompatible versions of the UNIX operation system.

Third, the standards for basic technical issues such as data compression and data file formats are not yet established. The importance of this issue is easy to understand after introduction to certain basic facts: a standard CD-ROM with 650 megabytes can store only 60 seconds of uncompressed full motion video, but a CD-ROM using the compression algorithm in the proposed MPEG standard can hold 72 minutes of full motion video. The uncompressed CD-ROM is a curiosity, but the "compressed" CD-ROM is a real product. The resolution of these technical issues is further complicated because it requires solutions in completely different technologies ranging from digital video to text.

Finally, most of the current set of developer's tools frequently work only on a single platform and are incompatible. Consequently, the production of a product for several platforms may require cumbersome file conversion or even a completely new development effort. The potential multimedia publisher must either choose a potential "winner" from the existing platforms or incur the cost of creating several different versions. The Interactive Multimedia Association is working to introduce standards to reduce the incompatibilities between platforms through its Compatibility Project.[2]

◄ Novelty ►

The exploitation of this opportunity is also complicated by the novelty of the rights needed to create, distribute and exploit multimedia works. The legal issues are complicated because the copyrightable works that are combined into a multimedia work — books, computer software, photographs, film and music — arise in separate industries. These industries have developed their own legal customs and traditional license terms. The book publishing industry for example has a tradition of long and comprehensive contracts. The movie industry on the other hand, frequently works from brief deal memos. In addition, multimedia works generally require a developer to obtain rights beyond those traditionally granted in these industries.

Multimedia works raise unique legal issues because of their differences from traditional copyrightable works:

1. **Interactive.** Multimedia works tend to be interactive instead of passive. Traditional copyrightable works such as books and films are passive. Such works are not changed by the action of the "viewer."

2. **Flexible Ordering.** Many multimedia works can be revised and reordered by the viewer. Traditional copyrightable works such as

books and films have a fixed order.

3. **Ease of Manipulation.** The new technologies make digital works very easy to manipulate and, thus, present new risks of unauthorized exploitation. For example, video effects that once required a studio with $500,000 of equipment to creat can now be developed using a Video Toaster or similar device that costs only several thousand dollars.[3]

Potential markets for television programs, films and their "components" (such as sound tracks and characters) include video games, CD-ROMs and interactive television. The new formats for exploitation in these digital media include: videos, electronic publishing, and computer software. For example, the recent book *Clinton: Portrait of Victory* also had a companion CD-ROM separately marketed that included several hundred photographs of the campaign as well as text, voice-over narration, audio recordings of some of Clinton's speeches and video clips of the campaign.

LEGAL PROBLEMS FOR MULTIMEDIA PUBLISHERS

The first legal problem in exploiting these new opportunities is that many traditional license arrangements in the entertainment and publishing industries may not be broad enough to permit exploitation in multimedia markets. The difficulty of obtaining the necessary legal rights is increased because the copyrightable works that are combined into a multimedia work — books, computer software, photographs, film and music — arise in separate industries. These industries have developed their own legal customs and traditional license terms.

Multimedia works generally require the producer to obtain rights beyond those traditionally granted in these industries. The publisher of a multimedia work must carefully determine what rights it and its customers will need and ensure that the developer negotiates appropriate licenses with the holders of those rights.

The differences in these legal customs means that the transaction costs (including determining who owns the rights and negotiating to obtain them) of obtaining some of these rights could be prohibitive. For example, the creator of a multimedia work may find that it is less expensive to have music specifically written and recorded for the project, rather than trying to determine what rights are needed for existing musical works and, then, negotiating to obtain such rights from different parties.

The publisher of a multimedia work should be aware of these issues as he plans which works to develop. In fact, he should consider including an experienced attorney as part of his negotiation team at an early stage in the planning process to ensure that he understands these issues. By obtaining such advice at an early stage in the publication process, he can avoid becoming committed to obtaining rights which would be too expensive or require too long to obtain.

The failure to successfully foresee what rights the developer will need in creating and distributing the multimedia work could result in the significant impairment of its ability to create the work or exploit it. For example, many film companies were surprised by the advent of the videocassette rental market. Many licenses for the rights in such films were drafted prior to the introduction of the videocassette and the videocassette recorder. Consequently, even sophisticated film companies did not have the right to distribute videocassette versions of the films that they had distributed for display on screens.[4]

◄ Similar Problem ►

More recently, a similar problem arose about "new media" in a dispute between the publishing house of Simon & Schuster and the film maker Quintex Entertainment, Inc. over certain rights to *Lonesome Dove*.[5] Simon & Schuster, which is one of the largest publishing houses in the United States, obtained the exclusive right to "publish" *Lonesome Dove* from Larry McMurtry. However, Larry McMurtry had retained the motion picture, educational picture and television picture rights. He licensed the motion picture rights to Quintex, which produced a well-known mini-series based on the book.

The Simon & Schuster contract included an "electronic rights" clause that was very broadly drafted to cover exploitation of *Lonsome Dove* in all types of media. A dispute then arose over Quintex's attempt to distribute an audiocassette of the sound track of the mini-series. Simon & Schuster objected to this distribution as being beyond the scope of Quintex's license to the "movie rights." Despite the planning and sophistication of a major publisher such as Simon & Schuster, they did not foresee all of the potential "spinoff" products arising from the novel *Lonsome Dove*.

Walt Disney Co. has just been sued by the music publisher of Stravinsky's "Rite of Spring" over the performance of the ballet music in the videotape of "Fantasia" released by Disney. The music publisher, Boosey & Hawkes Music Publishers, Ltd. ("B&H"), claims that the use of the ballet music in the video version of "Fantasia" exceeds the scope of the license granted to Disney. B&H claim that the license is limited to "one motion picture to be exhibited solely in theaters."

These examples demonstrate the importance of understanding the legal principles involved in multimedia works and carefully considering what rights will be necessary to create and exploit the work.

The potential problems for multimedia publishers can be summarized as follows:

1. **Limited Media Rights.** The "owner" (such as a film company) of the work may not have the rights to exploit the existing work in a new media or format. This problem will be particularly acute with adaptations of third-party works, such as books or plays, where the author may have retained significant rights.

2. **Limited Scope of Rights.** This problem is similar to the one described above. However, it is sufficiently important to warrant special attention. The development

of multimedia works will generally require significant modifications of the original work. These rights may require contacting several different entities to obtain the rights, such as the owner of the underlying work. In certain cases, actors may have individual contracts with a studio that would require permission to use their name and likeness.

3. **Music Rights.** The licensing of music presents special problems for multimedia works, because of the nontraditional manner in which it is used. Most of the standard performance and synchronization licenses for television programs and movies do not include rights necessary to create multimedia works. This area is just beginning to be addressed by ASCAP, BMI and Harry Fox Agency.

4. **Special Treatment of News.** The use of news reports requires a reexamination of the conditions under which the material was acquired. The broadcast of news has significant legal protection. The use of such material in a different context might not be permitted. For example, the "Rodney King" video was broadcast as news with no payment or a minimal payment to the cameraman. But when Spike Lee used it in his "Malcolm X" film, the cameraman sued him for copyright infringement. The parties later settled.[7]

5. **Treatment of Residuals.** The entertainment unions such as SAG and AFTRA are just beginning to deal with this issue. They have both recently developed contracts for new media productions.

6. **Interaction with Common Industry Provisions.** The creation of multimedia works may result in unanticipated consequences under common provisions in industry agreements. For example, if pay per-view expands to individual shows, how will it be treated under the current syndication structure which assumes that the broadcaster will control the time at which the program is viewed? Similarly, existing agreements with networks or other distributors may hurt the ability of a producer to exploit the rights in certain areas of multimedia.

7. **Different Traditions of the Computer Industry.** Multimedia products depend on computer software and hardware to operate. The computer industry has developed its own expectations and licensing traditions, which are very different from the broadcast industry. For example, the performance right is rarely addressed in licenses for computer programs because, until recently, computer programs had little or no graphic content. The computer industry also is not familiar with the requirements of the various union contracts that are well-known in the entertainment industry.

8. **Pricing.** Multimedia works may require very small parts of the existing work. For example, how much should be charged for a 30-second video clip of a television program in a CD-ROM?

9. **Scope of Rights to Grant.** The uncertainty about the success of the competing technologies and developers makes the choice of "platforms" and partners critical. Multimedia publishers must be careful when they make an irrevocable commitment (such as an exclusive license) to a single platform or developer. They should try to obtain broad rights to exploit a work. The parties must also determine how to share responsibility, costs and damages for infringement, particularly for "parts" of the work. For example, who pays for and controls litigation if an infringer only takes a videoclip out of an interactive program? How will the monetary damages, if any, be shared?

10. **Scope of Rights to Obtain for Future Works.** The potential multimedia publisher should ensure that it obtains rights to all of the potential multimedia markets, both those currently in existence and those which may come into existence. The failure to do so may result in problems similar to those of Disney and Quintex Entertainment.

11. **Liability for Infringement.** Given the uncertainty both in the scope of rights needed and the effect of existing agreements, the scope of liability for infringement for each party will probably be heavily negotiated. The parties should be aware of the statutory warranty of noninfringement of third-party rights that arises for "transactions in goods" under the Uniform Commercial Code.[8] Although it rarely applies in the film industry, it will apply to distribution of computer programs incorporating video clips. This liability is in addition to any contractual indemnity.

12. **International Issues.** Copyright and other laws differ in other countries. For example, many countries have moral rights provisions that would require permission from the principal cast and directors to create multimedia works. In addition, many countries do not have "work-for-hire" arrangements like those in the United States. The multimedia publisher should ensure that these differences do not affect their ability to exploit works in foreign jurisdictions.

HUMONGOUS AND BERKELEY SYSTEMS: WARNING OF HEAVY SEAS AHEAD

Despite the youth of the multimedia industry, it has already had its share of the lawsuits. The *Humongous* decision emphasized the complex nature of the industry and importance of careful drafting.[9] The dispute arose not over "content," but rather the right to use a software engine to develop video games. The principals of Humongous Entertainment had developed special software to aid in the development of computer games (the aptly named SCUMM program) while employed at LucasArts. When they departed to set up their new company, LucasArts licensed them the use of the SCUMM program in return for maintenance and upgrades. However, LucasArts also required that Humongous not sell any SCUMM-based games to a third-party distributor for less than 75% of average wholesale price for a three-year period. This restriction was included to permit LucasArts to recoup its investment in the SCUMM program. Humongous sold a SCUMM-based game to Electronic Arts ("EA") for 25% of wholesale price. EA is a well-known game publisher and a competitor of

LucasArts. LucasArts sued. LucasArts claimed that Humongous had breached its obligation to sell at now less than 75% of wholesale price and the requirement that only Humongous could publish its games. The court refused to grant a preliminary injunction on the basis that Humongous, not EA, was the publisher of the game, because Humongous retained artistic control of the product and that the breach of the pricing restriction was not material.

The fall witnessed a more traditional dispute, based on fair-use principles. The lawsuit arose out of the use of the whimsical "flying toasters," which Berkeley Systems had made famous in its After Dark screen saver program.[10] Delrina made a screen-saver program in which one of the 30 modules ("Death Toasters") had "flying toasters" that were shot down by Opus, a comic strip character. Berkeley Systems was not amused and sued. Delrina argued that the "Death Toaster" module was a "fair-use" parody of the After Dark product.

The court disagreed and granted a preliminary injunction against further distribution and advertising for the "Death Toaster" product. The court found that the use was commercial and, thus, presumptively unfair and that the two companies were direct competitors in the screen-saver market.

The court also noted that the "flying toasters" were a registered trademark of Berkeley Systems. The judge dismissed Delrina's argument that the Death Toaster was only one of 30 possible screen savers in its product and the market for "whimsical" screen savers is so segmented that the two products would not compete.

In addition to these decisions, several other important suits have been filed. Two leading developers, Michael Saenz and Joe Sparks, have filed suit over the ownership of the copyright in their famous game, "Spaceship Warlock." And the Harry Fox Agency and other music publishers have sued CompuServe, an online computer service, over the distribution of music on the service.

OVERVIEW OF COPYRIGHT PRINCIPLES

These materials will provide an overview of the critical intellectual property issues that will arise in the creation and distribution of multimedia works. Intellectual property rights in the United States are created by either federal or state law. Federal intellectual property rights include patent, copyright and federally-registered trademarks. State intellectual property rights include unfair competition, certain sound recordings, non-federally registered trademarks and trade secrets. Legal issues outside of intellectual property that may be relevant to the creation and exploitation of multimedia works include defamation, slander, privacy and rights of publicity. Although several of these intellectual property regimes may apply to multimedia works, the most important regime is federal copyright law and I will focus on copyright law primarily.

Copyright Law

Copyrights are protected almost entirely by Federal law in the United States. Copyright law is national and copyright laws in other countries differ from those in the United States. This discussion will be limited to United States copyright law. This discussion provides an overview of the law, but it is not comprehensive. To answer specific questions, the broadcaster and producer should contact their attorney.

Copyright law protects a wide variety of works: photographs, films, plays, data bases, musical recordings, computer software and toys. Copyright law also protects "compilations" of public domain works such as a collection of the plays of Shakespeare, and collections of information, such as parts catalogs.

In the United States, federal copyright law protects "original works of authorship fixed in a tangible medium of expression." Each one of these words has important legal significance. For example, "original" does not mean "novel" or "unique," such as is required for protection under patent law. Rather, it means a minimal level of creativity.

The phrase "fixed in a tangible medium" is also very important. For example, a football game that is not recorded in a "tangible medium" such as film or videotape is not protected under Federal copyright law.

The term "expression" is also very important in copyright law. Copyright law is based upon an economic balancing: copyright law grants sufficient protection for new works to encourage an author to distribute them to the public, but the scope is limited to avoid discouraging the creation of future works. This policy is embodied in the "idea-expression dichotomy." This dichotomy is a fundamental principle of copyright law and is stated as the limitation of copyright protection to the "expression" not the "idea" of a work.

Separating the "expression" from the "idea" of a work is one of the most difficult tasks in copyright law. For example, George Lucas' copyright in the "Star Wars" films cannot prevent the creation of another film that includes a dashing hero who saves a princess in the midst of numerous space battles set in the future. Nonetheless, George Lucas sued the developers of the television program "Battlestar Galactia" on the basis that the creators were "too close" to the "Star Wars" films. He was not ultimately successful.[11]

Quantum of Copyrightability

The search for the lowest common denominator, "the quanta," of copyright protection continues in recent court decisions. Copyright law, for example, will protect business forms that have sufficient "information" on them but not "blank" forms. This doctrine has existed for decades, but disputes continue to arise under it. On the other hand, copyright law will not protect short phrases or purely functional objects such as the shape of a simple "hoop" belt buckle. One court protected the "command structure" of the Lotus 1-2-3 software program.[12] More recently, the Supreme Court in the *Feist* decision stated that copyright law would not

protect the "compilation" in the white pages of a telephone book, since the selection, ordering and arrangement of the names in the white pages is not sufficiently "original."

This question may also arise in the context of modifying a pre-existing work: how much change is necessary to create a new work, protected by a separate copyright? Court decisions make clear that this standard is very low. Many decisions state that a "distinguishable" variation from an underlying work is all that is necessary to create a new copyright. However, mere correction of typographical or grammatical errors does *not* create a new copyright.[13] These issues arise in a slightly different context in determining whether or not modifications are "derivative" works, i.e. works that have been created based on existing ones (see Section VB).

Rights Under Copyright Law

The owner of a copyright has five exclusive rights:

- The right to reproduce the work.
- The right to adapt the work (to create "derivative" works).
- The right to distribute the work.
- The right to publicly perform the work.
- The right to publicly display the work.[14]

Some of these rights overlap: for example, the reproduction of a work may be essential to make a derivative work.

All of these rights are subject to exceptions. Most have specific exceptions for educational and religious uses and for libraries. The scope of these exceptions varies among the rights. Some exceptions are peculiar to a particular type of work: for example, copyright law grants a "compulsory license" to reproduce musical works for non-dramatic uses but requires the payment of fixed royalties to the owners of the copyright.[15] Other exceptions apply to specific rights: the public performance right is subject to exceptions that provide for "face-to-face" classroom instruction in a nonprofit institution, and a "compulsory license" for non-commercial broadcasting.[16]

One of the most important exceptions to the rights of a copyright owner is the "first sale" doctrine.[17] This exception to the distribution right provides that once an object (i.e. a book) embodying a copyrightable work is sold either by the owner of the copyright or under his authority, that particular copy may be resold without the copyright owner's permission. This exception permits a buyer to resell a book that he has purchased from a book store. However, the buyer is *not* allowed to reproduce the book or create a screenplay based on the book, since neither the reproduction nor the adaption right are subject to the first sale doctrine. When considering what rights are needed to create a work, the developer should keep clearly in mind that each right under the copyright law is independent. The developer may need one or more of them to create and distribute its multimedia work.

Another important exception to the rights of a copyright owner is the "fair use" privilege. This privilege merits a separate section.

Fair Use

Fair use is an exception to all five of the rights of a copyright owner.[18] The fair use privilege permits the use of a work for limited purposes, whose economic value outweighs the reduction in the scope of the copyright owner's rights. For example, the use of quotations from a book in a book review is a classic example of the "fair use" privilege. The application of the fair use privilege is judged by a four-part test:

- The purpose and character of the use. In particular, is the use commercial or noncommercial?
- The nature of the work. Is it a work of fiction or a description of an historical event?
- The amount and substantiality of the portion used. Is it a brief quote from a long book, or is it the "last five minutes" of a mystery film in which the mystery is solved?
- The effect of the use on the economic value of the work. Will the use substantially reduce the value of the work?

Although decisions under the fair use privilege have not been entirely consistent, the assertion of the fair use privilege for a purely commercial work (except for parodies and other very limited circumstances) entails substantial risk of liability for copyright infringement.[19]

Scope of Protection

Copyright law protects against "copying." Since direct copying is rarely discovered, copyright law depends on a two-part test: (i) access to the allegedly copied work, and (ii) "substantial similarity" between the expression of the two works.[20] The "access" portion of the test is rarely an issue. For example, access can be satisfied by showing that the work is "available" in stores that are geographically near the alleged infringer.

The critical issue is, generally, substantial similarity. Substantial similarity means different degrees of similarity for different works. The amount of similarity necessary to find infringement for very creative works, such as novels or screen plays, is much less than the amount of similarity necessary for fact-intensive works such as historical descriptions or computor programs.[21] This difference is based on the common-sense principle that the facts of historical events are fixed and can only be described in a certain limited number of ways. The comparison to determine "substantial similarity" is limited to the "expression" of the two works, not their ideas.

Courts have found infringement even when the amount of copying is quite moderate. For example, the courts found copyright infringement when a television station used a 13-minute selection out of six Charlie Chaplin films for a television retrospective on his career.[22] The court determined that those 13 minutes were the most critical parts of the films. Thus, by copying them, the television station was potentially depriving the films' copyright owner of substantial revenues.

HYPOTHETICAL MULTIMEDIA WORK

This section will analyze how these legal principles would apply to the creation and distribution of

a new multimedia work. The work is being created by a new company, Wall Street Productions, as a history of Wall Street and the financial services industry in the 1980s. Its intended market is the training programs of brokerage houses. It will be distributed on a CD-ROM and laser disk. The work will consist of the following elements:

- New text.
- Excerpts from various books about the era, including *Liar's Poker, Fall of the House of Hutton,* and *The Predator's Ball.*
- Software to permit the creation of specially tailored versions by the customer.
- Newspaper articles from the period.
- Still photographs.
- Film clips of news programs and excerpts from relevant motion pictures such as *Wall Street.*
- New video works that were created by Wall Street Productions to explain basic Wall Street concepts.
- Music, including some of the hit songs of the era, such as "Material Girl."

Text Works and Computer Software

The new text, the excerpts from the pre-existing books, the computer software and the newspaper articles may be treated differently from a legal point of view. Wall Street Productions is creating the new text and the computer software. As the creator, it will probably own the copyright in those elements, either through the work-for-hire doctrine or assignments. On the other hand, Wall Street Productions must go to the owners of the copyrights, or licensees of the copyrights, in the books and newspapers to obtain the rights to use them in its work. Many of these rights may no longer be held by the "author" since publishing houses increasingly demand very broad rights to exploit books in other media (see the *Lonesome Dove* litigation described in the first section).

Photographs

Copyrights in photographs are initially owned by the photographer, although they may either be assigned to another party or transferred to his employer under the work-for-hire doctrine. The determination of who owns the appropriate rights in the photograph can be very difficult and time consuming because of fragmentation in this industry. For example, the fact that a photograph appeared in the *New York Times* does not necessarily mean that the *New York Times* owns the copyright in the photograph. The *New York Times* may only have a license to use it in a newspaper. Common limitations in the licensing of photographs include the color of reproduction, the medium (i.e. newspapers, magazines, etc.), and attribution as well as those relating to numbers of copies.

The rights required for an interactive multimedia work would be quite different from those which are normally granted to photographs. For example, the photograph may appear several times throughout the work and the number of its appearances could be controlled by the viewer. Such flexibility is quite different from the common agreements in the photography industry.

Film Clips and Videos

Once again, Wall Street Productions must distinguish between videotapes it has created in which, if properly structured, it will own the copyrights and those in which it needs to obtain rights. The "authors" of a videotape may include the actors, directors, scriptwriters, music composers and the cameramen. To avoid the problems of joint ownership, Wall Street Productions should obtain the appropriate agreements from the individuals who are creating its videotapes.

News Programs and Other Stock Film

Stock footage is available from "stock houses" in many cities. Materials available from stock houses range from historical footage of various locations to commercials. Other institutions, such as television stations, may also license their newscasts. These institutions generally base their royalty on the type of use of the film. For example, different royalties are due for use on national television or regional television. Since the multimedia work would not fit easily into any of these categories, Wall Street Publications would probably have to negotiate a special license with these institutions.

Feature Films

The use of feature films can be particularly complex and expensive. Feature films are frequently based on a novel that is licensed to the film, and it may use music developed by a third party. Consequently, the owner of the copyright in the film may not have the necessary rights to the music or the underlying work to permit their use in the multimedia work. The *Lonesome Dove* litigation suggests the degree of complexity that can arise in these circumstances. This situation may be further complicated by provisions of the various motion picture industry guild agreements (such as the Screen Actors' Guild and the Directors' Guild of America), which require payment of fees upon incorporation of parts or portions of the film into another work.

Music

The right to use music in the new work may require obtaining rights from several different parties.[23] The rights necessary depend on whether Wall Street Products records the music itself or wishes to use the performance of a third party.

1. **Mechanical rights.** Mechanical rights are the basic right to use a musical composition.[24] They do *not* include the right to publicly perform the music (see below). A mechanical license also does *not* permit the use of the music with still or moving images. Such use requires a "synchronization" license (see below). Although copyright law provides a compulsory license for mechanical rights, most licensees prefer to obtain these rights commercially through the Harry Fox Agency or other similar agencies. This preference is based on the very onerous payment and accounting requirements imposed on the "compulsory" license in the Copyright Act.

2. **Synchronization license.** If the music is to be synchronized with

still or moving images on a screen, the licensee must obtain a "synchronization" license. Although these rights may also be handled by the Harry Fox Agency, in some cases Wall Street Productions may need to contact the musical publisher directly.

3. **Public performance rights.** Wall Street Productions will probably also need a license for public performance because its work will be shown to trainees in Wall Street brokerage houses. Such a showing would be considered a public performance. A performance is considered public if it is "open to the public" or at any place where a substantial number of persons outside of the "normal circle of family and social acquaintances" gather.[25] Most music publishers permit either ASCAP or BMI to license their public performance rights. These rights do not apply to a particular performance by a particular individual or group to use the particular recording of a performance of the musical composition. Thus, obtaining a mechanical license to "Material Girl" would not permit Wall Street Productions to use Madonna's performance of the song.

4. **Right to a particular performance or recording.** As described above, if Wall Street Productions desires the musical composition to be performed by a particular group or individual, it must also obtain the right of the copyright holder in that particular performance. The licenses described above are limited *solely* to the right to use the musical composition. Thus, unless Wall Street Productions is prepared to have new artists record the music, it must negotiate with the holder of the rights to the particular performance which it desires to use.[26] These rights are generally held by record companies.

In certain limited instances, the creator might need a special type of performance right, known as "grand performance" rights. These rights are required for public performance of music that is an integral part of a dramatic work, such as a musical review.[27]

On the other hand, courts permitted two books to be much more similar for a fact-intensive description of the crash of the Hindenberg zeppelin. Such similarity was permitted because the facts of an historical event can be described in only a limited number of ways.[28] Once again, copyright law is meant to encourage the creation of new works.

OTHER COPYRIGHT ISSUES

OWNERSHIP

Except in limited circumstances described below, the individual "author" of a work in the United States is the owner of its copyright.[29] The choice of the author, however, may not be obvious. For example, in the case of sound recordings, the sound engineer, the performing artists and even the record producer may all be "authors" under copyright law. On the other hand, a photographer is considered to be the author of his photograph.

The exceptions to this rule in the United States are called the "work for hire" doctrine.[30] Although similar rules exist in some other countries, each country's approach to this issue is different. The work-for-hire doctrine in the United States has two branches: employee and "specially commissioned works."

The employee branch of this doctrine states that the employer is the author of a work created by an employee "within the scope of his employment." Thus, an employee working for a company creating a multimedia work would not be the "author" of the work he has created; the company would automatically be the author. Many companies, however, do not rely solely on the work-for-hire doctrine. They obtain express assignments of copyright from their employees of any works that the employee develops on company time or using company materials. Such assignments avoid uncertainty about the scope of the "work-for-hire" doctrine. Some states, such as California, impose limits on the scope of the assignment of rights that an employer may demand of its employees.

The second branch of the work-for-hire doctrine is for "specially commissioned works." This provision was included in U.S. copyright law because of lobbying by businesses interested in such works. The rationale was that some types of works are rarely created by a single author, but rather by a team of individuals working together. In order to avoid disputes over the ownership of such works, Congress was asked to create special rules to govern their ownership. Nine types of works are eligible for this treatment:

1. Contribution to collective works.
2. Part of a motion picture or other audiovisual work.
3. Translations.
4. Supplementary works (such as forwards, afterwards, maps, tables, charts, etc.)
5. Compilations.
6. Instructional texts.
7. Tests.
8. Answer materials for tests.
9. Atlases.

If the work being created fits into one of these categories, and the contracting party has obtained a written agreement including the words "work-for-hire" with the individual creator, then the contracting party (not the individual creator) will be the initial author of the work. This "commissioned work" rule is limited to United States copyright law.

If the work is created by more than one individual and it does not fall within the scope of the work-for-hire doctrine, the copyright in the work may be "jointly" owned.[31] A jointly owned work is one in which all the creators of the work have an "intention" that their contribution should be merged or the independent parts made part of a unitary whole. The lack of such intention means that the copyright in the work is not jointly owned. Moreover, the contribution of each "joint" author must be copyrightable, it cannot be merely an "idea." Joint ownership permits each owner to nonexclusively license and otherwise exploit the work without the permission of any other author. However, under United States law, each author has the "duty to account" and share profits for his exploitation of the work with his other joint owners in proportion to their

ownership of the copyright. Joint owners also have the obligation *not* to "waste," or destroy, the commercial value of the work.

Derivative Work

A derivative work is one that recasts, transforms or adapts one or more pre-existing works.[32] An example of a derivative work is a translation of a book into a foreign language, which requires the modification of the grammar and syntax to fit the new language. Another classic example of a "derivative work" is a film based on a book, such as the film "Bonfire of the Vanities" based on the book of the same name. A "compilation" is another important type of copyrightable work in the multimedia field (see below).

The rules of originality apply to the creation of derivative works. Modifications to an existing work that do not meet the originality standard under copyright law will not give rise to a derivative work. For example, 40,000 editorial changes, including the elimination and addition of punctuation, addition of quotation marks and correction of typographical errors, was insufficient "originality" to create a derivative work in the "edited work."[33] On the other hand, the condensation of a 200-page book into a 100-page book would qualify for copyright protection as derivative work.

The new copyright in the "derivative work" will extend only to the new material. Copyright in the underlying material will remain the property of the existing owner. Thus, the copyright in the authorized French translation of a book originally written in English may be owned by the translator. The owner of the copyright of the original English book will not change. However, to be a creator of the derivative work, the developer must have appropriate rights from the copyright owner in the underlying work in order to create its derivative work. For example, if the developer creates a film based on a book, the developer will own a copyright in the film only to the extent the "expression" differs from the expression in the underlying book. The developer needs to have the right to use the book in its film. This need was starkly illustrated when the license to use the short story underlying Hitchcock's film "Rear Window" expired due to the "termination of transfer" provisions in the Copyright Act of 1909. The Supreme Court found that the filmmaker could no longer exhibit the film without infringing the copyright in the book.[34] (This rule has been modified for certain works by a change in the copyright law in 1992.) [35] If the developer creates a derivative work beyond the scope of its license rights, the developer will infringe the original work. For example, the developer could not legally create a stage play from a book when it is only licensed to create a film.

Compilations

A compilation is a copyrightable work consisting of pre-existing elements, which may or may not be copyrightable in and of themselves. The selection, ordering or arrangement is the protectable element of the compilation under copyright law. It must meet the originality standards that I described above. For example, an alphabetical list of names of all persons having telephone numbers in a particular geographic area is *not* sufficiently original to qualify for copyright protection.[36]

A compilation can be of elements that are not copyrightable. These elements may not be protected under copyright law because the term of copyright on them has expired, such as Shakespeare's plays, or because the elements are not sufficiently original to be copyrightable, such as part numbers.

The copyright in the compilation protects only the selection, order or arrangement of the elements. For example, if a publisher selected five Shakespearean plays, annotated and arranged them in a particular order, such a compilation would be protected under copyright law. On the other hand, if a second publisher were to select another five Shakespearean plays (even including some of those selected by the first publisher) and order them in a different way and annotate them differently, that work would also be protected by copyright law as a compilation. However, the second work would probably *not* violate the copyright in the first compilation unless the selection order or arrangement of the second work was "substantially similar" to the first compilation.

Public Domain and Stock Houses: Panacea or Quagmire

One frequently suggested solution to the problems of clearance is the use of "public domain" material. Unfortunately, the determination of the copyright status of a work can be expensive and difficult. First, a work may enter the public domain in a number of ways in the United States: the expiration of the term of copyright or, in the past, the failure to file a renewal application. The consequences of the manner in which it enters the public domain can be quite different. For example, the failure to "renew" a copyright in a film does not necessarily mean that the film or parts of it can be used without restriction. The underlying work such as a novel, short story or play may still be protected by copyright. Or the music of the soundtrack may still be protected by copyright. Even though the main work may be in the public domain, these other "underlying" works may be able to prevent its use. This situation arose last fall: Republic Pictures was able to prevent the distribution of video cassettes and public performance of "It's A Wonderful Life."[37] Although the movie had entered the public domain in 1974 through the failure to renew the copyright, Republic Pictures obtained the copyright in the underlying short story and, later, in the sound track. With these rights, it was able to convince video distributors and television stations to cease distributing the movie in video cassette form and to cease broadcasting it without permission from Republic Pictures.

Second, the fact that a particular work is in the public domain does not mean that all versions of the work have entered the public domain. In the music field, later arrangements of the composition may be protected by a separate copy-

right. In books, the copyright in illustrations, forewords and other material may survive the expiration of the copyright in the main work.

Finally, the expiration of copyright does not mean that the copyright has expired in other countries. Some countries, such as Germany, have a longer term of copyright protection. In fact, the EEC has recently adopted a directive to extend the term of copyright to life of the author plus seventy years.

Several new publications try to assist in determining the public domain status of works. The monthly "Public Domain Report" is available from Public Domain Report, P.O. Box 3102, Margate, New Jersey 08402 (phone: 800-827-9401; fax: 609-822-9445). The PDR covers all types of works from music to theater, but is limited to rights in the United States. BZ Rights has published "The Mini-Encyclopedia of Public Domain Songs," which lists over 600 songs that are in the public domain in the United States. The book is available from BZ/-Rights & Permissions, Inc. 125 West 72nd Street, New York, New York 10023 (phone: 212-580-0615; fax: 212-769-9224).

Stockhouses may also be a deceptive source of "cleared" materials. Although many stockhouses have rights to the copyright, they may not have cleared the "publicity" rights of the individuals in the photograph. In addition, the new "clip" industry frequently uses terms such as "copyright-free" or "royalty-free" to describe their products. However, upon examining the CD-ROM full of images or sound, the developer frequently discovers unexpected restrictions such as limitations on sales in North America or fewer than 10,000 copies of the derivative works. These limitations may be tucked away in the "Read Me" files of the CD-ROM and, thus, easy to miss.

OTHER LEGAL ISSUES

The creation and exploitation of multimedia work may raise other legal issues. For example, you should be concerned about potential defamation or violation of publicity or privacy rights. Defamation is a doctrine that prevents the dissemination of false or wrongful statements about a person that expose him or her to hate, ridicule or contempt or which injure or have a tendency to injure his or her reputation. On the other end of the spectrum are the restrictions on the invasion of a person's privacy, or the unauthorized exploitation of his or her name or image.[38] For example, a person generally has the right to avoid intrusion into his private affairs. This right may be waived if the affairs are no longer private. The use of the image or voice of a famous person in a way that adversely impacts his or her reputation or which falsely implies that he or she sponsors or approves the project, can result in liability. Recently, a court has awarded significant damages to Bette Midler for a commercial that used a singer specifically hired to imitate her style.[39]

To avoid this type of liability, the film and television industry commonly obtains releases from those who appear in an identifiable manner in a film. To the extent that the developer is incorporating a pre-existing film or other work into its new work, he may wish to examine the release from governments in key locations if the locations are presented in a negative light. For example, the makers of the film "Bonfire of the Vanities" obtained a release from the government of the Bronx because of the negative portrayal of the town in the movie.

Moral rights are another legal doctrine that may affect the creation and distribution of the work. Moral rights generally protect authors by providing control over their work after they have completed it. Moral rights are distinct from the economic rights of copyright that I discussed earlier. Moral rights are much more common in Continental Europe than in the United States. However, since joining the Berne Convention in 1988, the United States has been required to provide moral rights protection for works created in the United States. To date, this protection has been limited to certain works of visual art or "fine" arts.[40]

However, in foreign jurisdictions, such as France and Germany, moral rights exist in a much wider range of copyrightable works.[41] These rights are very important for works that will be distributed in foreign countries. The two most important of these rights are "attribution" (the right to require acknowledgment of the author's role in the creation of the work) and "integrity" (the right to prevent the distortion or modification of the work).

In some countries, such moral rights may be waived by contract. However, other countries provide that they may not be waived by contract as a matter of public policy. The developer must be careful to ensure that it obtains an appropriate waiver of these moral rights in the multimedia work it creates, and that the creation of its work will not violate the moral rights in one of the pre-existing works included in its work.

SUMMARY

The exploitation of content in multimedia works implicates a wide range of legal issues. An understanding of these legal issues is essential to be able to intelligently exploit such rights. Content owners who wish to participate in the multimedia industry should also consider assisting in the development of technical standards as well as developing standard agreements to reduce the costs of obtaining the rights necessary to create these works. Many other industries, such as architects and music publishers, have developed such standard contracts to reduce the legal costs of common transactions. The creation of these new multimedia works will be made more difficult by the mismatch between existing rights and the rights needed for these new works.

NOTES

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4. Del Greco, "Prior Licenses and New Uses: *Peggy Lee v. Walt Disney Productions* and

the Conflict between Motion Picture Licenses and Home Video Markets'' *1992-93 Entertainment Publishing and the Arts Handbook* 273.

5. Kirsh, ''Lonesome Dove,' and the Electronic Rights Revolution in Book Publishing,'' 43 Los Angeles Lawyer, April 1990, No. 2, at 24.

6. *Wall Street Journal*, January 22, 1993, p B6.

7. *LA Times*, October 2, 1992, Part B, p 1. ''Holiday, Lee Settle Malcolm X Dispute.''

8. UCC § 2-312. *Dolori Fabrics, Inc. v. Limited, Inc.*, 662 F.Supp. 1347 (S.D.N.Y. 1987).

9. *Lucas Arts Entertainment Company v. Humongous Entertainment Company*, 815 F.Supp. 332 (N.D. Cal. 1993).

10. *Berkeley Systems, Inc. v. Delrina Corporation*, Case No. C-93-3545 EFL (N.D. Cal, October 15, 1993).

11. *Twentieth Century Fox Film Corp. v. MCA, Inc.*, 1980 WL 1184 (C.D. Cal. 1980).

12. *Lotus Development Corporation v. SAPC, Inc.*, 699 F.Supp. 1009 (D. Mass. 1988) *aff'd* 921 F.2d 360 (1st Cir. 1990).

13. *Nimmer On Copyright* § 2.01(B)(1992).

14. 17 U.S.C. § 106 (1992).

15. 17 U.S.C. § 115 (1992).

16. 17 U.S.C. § 118 (1992).

17. 17 U.S.C. § 109 (1992).

18. 17 U.S.C. § 107 (1992).

19. *Nimmer, supra* n. 10, at § 13.05 (1992).

20. *Id.* at 13.01-03.

21. *Hoehling v. Universal City Studios* 618 F.2d 972 (2nd Cir. 1980).

22. *Roy Export Company v. CBS*, 503 F.Supp. 1137 (SDNY, 1980), *aff'd* 672 F.2d 1095 (2nd Cir. 1982).

23. Kohn & Kohn *The Art of Music Licensing* (1992).

24. 17 U.S.C. § 115 (1992).

25. 17 U.S.C. § 106(4)(1992).

26. 17 U.S.C. § 114 (1992).

27. Kohn, *supra* note 20, at Chapter 16.

28. Hoehling, *supra* n. 18.

29. *Nimmer, supra* n.10 at Chapter 5.

30. 17 U.S.C. § 201 (1992).

31. *Oddo v. Ries*, 743 F.2d 630 (9th Cir. 1984).

32. 17 U.S.C. § 103(a)(1992); *Nimmer, supra* n.10, Chapter 3.

33. *Grove Press, Inc. v. Collector's Publication, Inc.*, 264 F.Supp. 603 (C.D. Cal. 1967).

34. *Steward v. Abend*, 110 S.Ct. 1750 (1990).

35. 17 U.S.C. 304(a)(1992).

36. *Feist Publications, Inc. v. Rural Telephone Service Co.*, 111 S.Ct. 1281 (1991).

37. *Newsday*, ''For Some Viewers, It Won't Be a Wonderful Christmas'' (December 5, 1993) at 20.

38. McCarthy *The Rights of Publicity and Privacy* (1987).

39. *Midler v. Ford Motor Co.*, 944 F.2d 909 (9th Cir. 1991).

40. 17 U.S.C. § 107A (1992).

41. See Nimmer & Geller, *International Copyright Law and Practice* (1988).