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## Intellectual Property of a Different Sort

A celebrity's image and "persona" can be extremely valuable intellectual property. As these images and sounds are increasingly captured in digital form and can flow worldwide with ease, it is to be expected that commerce, litigation and issues of market value will increase. In the face of this prospect, the valuation and licensing of celebrity persona is a challenging task.

It should be remembered that the asset we are concerned with the *right* to use the property, not its physical embodiment. We therefore must carefully define the rights that will be the basis of the future economic benefits. These rights are much less difficult to define for physical property than they are for intellectual property. Our objective is to develop the menu of potential exploitations of such a property and thereby gain an understanding of the potential benefits of ownership.

This menu is extremely important in the case of so-called "soft" intangible properties, that is, those that are not technology related. This category includes intellectual properties protected by trademark and copyright law as well as those unique rights that exist under the law concerning privacy and publicity.

Some may think of these as "new" intellectual properties, though they are not really new, but rather new exploitations of existing properties. As an example, during his life, the principle commercial use of Humphrey Bogart's image was to advertise the motion pictures in which he appeared. Now, even many years after his death, we may see his image or hear his voice in movies, in television advertisements or on our computer screens in a variety of commercial exploitations. Had this myriad of exploitation possibilities existed during his lifetime, Mr. Bogart would have wanted to control and economically benefit from them. His *persona*, apart from his stage and screen career, would have had greatly expanded economic value to him. Now, his estate addresses these issues and his image continues to be an important intellectual property.

If our task is to value or license such rights, we need to have some understanding of the legal foundation for these properties because legal protection is fragmented and sometimes in conflict. Obviously, the extent and quality of legal protection is an important factor in estimating future economic benefits from exploitation which, in turn, drives market value and licensing terms.

The right of privacy and the right of publicity are two bodies of law that are related but distinct. They are related in that they are focused on an individual person, but are distinct in addressing two different types of personal rights. The right of privacy is intended to protect an individual from the discomfort of having private facts divulged publicly or being portrayed in a derogatory way. The right of privacy exists only during a person's life and cannot be transferred as if it were property. In the U.S. these rights are enforced under state common and statutory law.

The right of privacy is often referred to in tandem with the right of publicity. Courts in the U. S. began in the 1950's to recognize the right of publicity as separate from the right of privacy. It wasn't really until the rise of sports and entertainment celebrity that unauthorized commercial use of personal images became enough of an economic threat to prompt legal recognition.

The right of publicity establishes one's persona as private property, and protects one's persona (generally, name, likeness, and voice) from unauthorized commercial use. The right of publicity can be assigned and, in some cases, can be descendible (able to be bequeathed and inherited).

The state laws concerning the right of publicity are a patchwork, with 30 states having some form of right of publicity laws, either in common law (11) or in statutory form (19). The specific

description of protected property varies from state to state, and some do not grant rights after death and others do so for periods that vary from 10 years to 100 years, Outside of the United States, laws regarding the protection of personal image tend to resemble our right of privacy. That is they seem to be more focused on protecting privacy rather than establishing one's persona as property. The recognition and protection of a right of publicity is as varied outside the United States as it is within.

Certain aspects of a person's persona can be registered as a trademark. Since trademarks must be used in commerce in order to retain this protection, "personal" marks must be appropriate for use in the marketplace. Most often they are a name or a likeness.

The focus of trademark law is the customer and the likelihood of confusion, unlike the right of publicity that looks to the ability of a person to control his or her image.

Under U.S. copyright law, authors were granted the right to print, re-print, or publish their work for a period of fourteen years and to renew for another fourteen.

"The law was meant to provide an incentive to authors, artists, and scientists to create original works by providing creators with a monopoly. At the same time, the monopoly was limited in order to stimulate creativity and the advancement of "science and the useful arts" through wide public access to works in the "public domain." Major revisions to the act were implemented in 1831, 1870, 1909, and 1976".<sup>1</sup>

Today, the Copyright Act appears as title 17, U.S. Code, section 101.<sup>2</sup> In general, copyright affords to an author of an original work (whether published or unpublished) the exclusive right to do and to authorize others to do the following:

- To reproduce the work in copies or phonorecords;
- To prepare derivative works based upon the work;
- To distribute copies or phonorecords of the work to the public by sale or other transfer of ownership, or by rental, lease, or lending;
- To perform the work publicly, in the case of literary, musical, dramatic, and choreographic works, pantomimes, and motion pictures and other audiovisual works;
- To display the copyrighted work publicly, in the case of literary, musical, dramatic, and choreographic works, pantomimes, and pictorial, graphic, or sculptural works, including the individual images of a motion picture or other audiovisual work; and In the case of sound recordings, to perform the work publicly by means of a digital audio transmission.

These are limited by the doctrine of "fair use" which is described as follows in Section 107 of the Copyright Act:

*Limitations on exclusive rights: Fair use*

Notwithstanding the provisions of sections 106 and 106A, the fair use of a copyrighted work, including such use by reproduction in copies or phonorecords or by any other means specified by that section, for purposes such as criticism, comment, news reporting, teaching (including multiple copies for classroom use), scholarship, or research, is not an infringement of copyright.

In determining whether the use made of a work in any particular case is a fair use the factors to be considered shall include:

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<sup>1</sup> Ibid., "Copyright Basics"

<sup>2</sup> Further description is contained in Chapter 2, Pp. 31-34.

- (1) the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes;
- (2) the nature of the copyrighted work;
- (3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and
- (4) the effect of the use upon the potential market for or value of the copyrighted work.

The concept of “fair use” in the Copyright Act is not crystal clear to us and the “greyneess” of this is borne out in some recent litigation just begun. Google, the Internet search engine and advertising company has marshaled its immense resources behind a project to digitize the books contained in the libraries of four major universities and the New York Public Library. Google has indicated its intent not to seek permission for the books protected by the Copyright Act (i.e., not in the public domain). Google’s argument is that its project constitutes a “fair use” that is beneficial to society. On the other side, the Authors Guild and three individual authors have filed suit in New York federal court arguing that Google’s project constitutes copyright infringement. They seek damages and an injunction to halt the project. This case is likely to have far-reaching effect, one way or the other.

### **Legal Uncertainties and Solutions**

We have noted that both U.S. state and International laws concerning the right of publicity are a patchwork. Therefore a valuer needs to make some arbitrary assumptions or to seek legal guidance as to how to structure a forecast of future economic benefits that is in reasonable conformance to the realities of applicable law.

A number of intellectual property professionals and academics have suggested that the best solution to the patchwork is an overriding federal law of publicity rights. The International Trademark Association (INTA) in 1998 adopted a Resolution and presented testimony before the U.S. House of Representatives to the effect that the Lanham Act should be amended to include a federal right of publicity section. INTA’s suggestion was that this amendment should:

- Preempt state common and statutory law on the subject.
- Harmonize, as far as possible, the states’ laws.
- Make the right of publicity assignable and descendible for some fixed period after death.
- Provide “grandfathering” of prior rights
- Recognize the concept of “fair use”.

We call attention, for the benefit of readers, to this legislative effort to solve the problems that arise from disparities in the existing body of law concerning this intellectual property asset.

### **A Photography Issue**

We are aware of a situation that may be addressed in the courts regarding the tension between the provisions of the Copyright Act and state right of publicity law. The situation seems to be unique to images of celebrities<sup>3</sup> and is presently focused on photographs, though the same issues could arise concerning drawings or paintings. We point out that there may be multiple entities involved in the commercial exploitation of a celebrity image:

- The celebrity

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<sup>3</sup> We remind the reader that, while we refer to “celebrity” images, the concepts hold true for anyone’s image. The potential economic value of celebrity brings these situations to the fore and we use this terminology in order to clarify the discussion.

- The celebrity's estate
- The celebrity's (or estate's) agent or exclusive licensee
- Photographer (or artist)
- Photographer's employer
- Purchaser of an image copy

It is useful to observe the rights of these entities with respect to the legal systems that may apply.

Assume that a photographer, acting on his or her own creates an image of a celebrity and obtains the proper model release. Keeping this example simple, let us further assume that the photographer is not employed in the news media, since that might get us into the murky realm of "fair use". The Copyright Act (Section 107) discusses the ownership of that image:

Copyright protection subsists from the time the work is created in fixed form. The copyright in the work of authorship immediately becomes the property of the author who created the work. Only the author or those deriving their rights through the author can rightfully claim copyright.

From this we can observe that, under copyright law, the example image belongs to the photographer. Further, the photographer has the right to sell copies of the original photograph or license others to do so, as described in the first part of Section 106 of the Copyright Act:

Subject to sections 107 through 122, the owner of copyright under this title has the exclusive rights to do and to authorize any of the following:

- (1) to reproduce the copyrighted work in copies or phonorecords;
- (2) to prepare derivative works based upon the copyrighted work;
- (3) to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending;

Further on in Section 107 of the Copyright Act we find:

In the case of works made for hire, the employer and not the employee is considered to be the author. Section 101 of the copyright law defines a "work made for hire" as:

- (1) a work prepared by an employee within the scope of his or her employment; or
- (2) a work specially ordered or commissioned for use as: a contribution to a collective work, a part of a motion picture or other audiovisual work, a translation a supplementary work, a compilation, an instructional text, a test, answer material for a test, an atlas if the parties expressly agree in a written instrument signed by them that the work shall be considered a work made for hire....

If our example photographer has such an agreement, then his or her employer owns the work and has the same rights of exploitation that the photographer would have had, absent the agreement.

In either of the above situations, it is clear that the purchaser of a copy of the photograph has no rights with respect to the original work. The purchaser simply owns an item of tangible property.

Now we turn to the rights of the celebrity as a person or the rights of the celebrity's estate or agents or exclusive licensees of the estate. It seems to us that these entities, if they own an original photograph of the person, as an example, have the rights described above under the

Copyright Act. They also have the right to control the commercial use of that photograph to the extent of the various state laws concerning the right of publicity.

A dilemma arises when there is an original photograph that is the property of someone independent of the celebrity, an agent or estate. It is rather clear from the Copyright Act that the owner has the right to commercialize that image. Yet the celebrity, estate or agent also seems to have that right, again subject to the vagaries of state law. Can the celebrity or his or her estate prevent the independent photographer from commercially exploiting the image?

We do not know the answer to this question and may not know for several years. There is litigation underway between CMG Worldwide, agent for the estate of Marilyn Monroe, and several photographers of Miss Monroe (and their estates) and agents on the question similar to our example.

This litigation could well be headed for the Supreme Court because of the disparity in state law. It might also prompt legislation at a federal level seeking to harmonize our disparate laws, as the INTA has suggested.<sup>1</sup>

### **Conclusion**

Nearly always, the valuation of a celebrity's persona will be based on the present value of the potential stream of income that could be realized from reasonable exploitations. As we described in our previous writings about the capitalized income valuation method, one must focus on:

- The amount of income expected
- The duration of the income stream
- The pattern by which it will be received
- The risk of realizing it in the expected fashion

Developing these essential ingredients is especially challenging when appraising a celebrity persona. It is clear, however, that when we describe the virtual transaction that will be the model for such an appraisal, we first face the difficult task of identifying the parties to the virtual transaction and the specific rights that are the subject. We have previously observed that there can be several parties involved in the ownership and/or exploitation of persona property. We also know that what we might call the "fee simple" interest in that property may be fragmented. The various elements of persona (i.e., name, likeness, voice, mannerisms) can be exploited separately, by different entities. A single element may be exploited in different ways, through different means and agencies.

At some point in the process, the valuer has to overlay the legal landscape in order to identify what is "exploitable", where it can be exploited and for how long, and what legal protection may be available (or not). As we noted previously, the legal landscape has some rather large foggy patches:

- The recognition and protection of these rights varies greatly from jurisdiction to jurisdiction:
  - Are the rights descendible, or will they end with the life of the celebrity?
  - If rights are descendible, how long do they last post-mortem?
  - What forms of exploitation are protectable
- In the United States there are collisions between legal regimes, i.e. Right of Publicity, Copyright, Trademark that will further cloud the issues until some resolution is reached.

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- The ownership of publicity rights may be difficult to establish.

There is a myriad of factors that must be considered in order to quantify the ingredients of an income approach valuation of celebrity persona. And many of these are unique to this type of intellectual property.

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<sup>i</sup> There have been decisions in this case subsequent to the writing of this article, but while seeming to resolve this case (pending appeal) they do not address the issue of state vs. federal law. The ruling in the United States District Court, Central District of California was that Marilyn Monroe was a resident of New York which does not recognize a descendible postmortem publicity right. So her estate has no publicity rights, and therefore CMG Worldwide Inc. does not either. So the estates of the photographers can license their images and have done so through Legends Licensing LLC. September, 2009.