POWERHOUSE POINTS

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Freeborn

IL Supreme Ct. Holds Employees May Bring BIPA Actions Against Employers

Joel B. Bruckman, Attorney

Illinois' Biometric Information Privacy Act ("BIPA") is regarded as one of the most progressive data privacy statutes in the country.[1] Illinois' BIPA statute went into effect back in 2008 and since then has continued to make Illinois one of the most sought after jurisdiction for plaintiff's seeking to bring data privacy lawsuits regarding biometric information. For many, one of the most attractive aspects of Illinois' BIPA statute is its liquidated damages provisions, which allow for recovery of liquidated damages in the amount of either $1,000 per violation or $5,000 per violation in instances of "reckless" violation(s), as an alternative (not a preclusion) to actual damages.[2] BIPA regulates the collection, use and disposal of "Biometric Identifiers" and "Biometric Information".[3]

For those who may wonder: "what does and does not constitute biometric information or a biometric identifier," BIPA defines "Biometric Identifiers" to include information such as "a retina or iris scan, fingerprint, voiceprint, or scan of hand or face geometry."[4] Moreover, BIPA expressly excludes from its definition of "Biometric Identifiers" the following types of information "writing samples, written signatures, photographs, human biological samples used for valid scientific testing or screening, demographic data, tattoo descriptions, or physical descriptions such as height, weight, hair color, or eye color," as well as a variety of health information related to medical procedures.[5] Furthermore, BIPA defines "Biometric Information" as "any information, regardless of how it is captured, converted, stored, or shared, based on an individual's biometric identifier used to identify an individual."[6]

Since August 2017, the case of *McDonald v. Symphony Bronzeville Park, LLC, et al.,* has been percolating through Illinois courts on resolution of defendants' motion to dismiss the case, and made its way all the way up to the Illinois Supreme Court. The seminal issue in the case to be decided was, does the exclusivity provision of the Illinois Worker's Compensation Act limit, and effectively preempt employees from bringing a cause of action against their employer(s) for violations of BIPA. On February 3, 2022, the Illinois Supreme Court answered that question in the negative and held that no such preclusion exists, clearing the way for both plaintiffs and employees outside of that case to assert BIPA claims against their respective employer.

1 *See* 740 ILCS 14/1 et seq. (West 2016).
2 740 ILCS 14/20(1)-(2).
3 740 ILCS 14/15.
4 740 ILCS 14/10.
5 *Id.*
6 Id.

Powerhouse Points

- Illinois' Biometric Information Privacy Act ("BIPA") is known to be one of the most robust data privacy acts in the country, which imposes statutory liquidated damages of $1,000 - $5,000 per violation, or actual damages (whichever is greater), and allows for other relief such as recovery of attorney's fees and costs as well as injunctive relief.

- No employer (or other private entity) may collect, capture, purchase, receive through trade, or otherwise obtain a person's biometric identifier or biometric information, unless it first: provide written notice to the subject or their legally authorized representative that (i) a biometric identifier or biometric information is being collected or stored; (ii) the specific purpose and length of term for which the same is being collected; and receives a written release executed by the subject or their legally authorized representative.

- Illinois' Worker's Compensation Statute does not limit employees' rights to bring suits for violation of BIPA. Accordingly, employees, as a class, have standing to assert violations of BIPA against their employer and may seek either liquidated or actual damages resulting from such violations.

In *McDonald*, plaintiff, Marquita McDonald, represented a putative class of employees which alleged that their employer, Symphony Bronzeville Park, LLC ("Bronzeville") and the other defendants "had violated—and continued to violate—various statutory requirements of [BIPA]."[7] McDonald alleged that while she was employed by Bronzeville from December 2016 to February 2017, that "Bronzeville utilized a biometric information system, which required her to scan her fingerprint, as a means of authenticating employees and tracking their time."[8] Moreover, McDonald alleged that "she was never provided with nor signed a release consenting to [Bronzeville's] storage of her biometric information and had never been informed of the purposes or length of time for which her biometric information was being stored."[9]

Based on those contentions McDonald brought various causes of action against Bronzeville including several counts under BPA alleging that Bronzeville "negligently failed to obtain written releases from them before collecting, using, and storing their biometric identifiers and biometric information; negligently failed to inform them in writing that their biometric identifiers and biometric information were being collected and stored; negligently failed to inform them in writing of the specific purpose and length of time for which their biometric identifiers or biometric information was being collected, stored, and used; and negligently failed to publicly provide a retention schedule or guideline for permanently destroying the biometric identifiers and biometric information."[10]

Bronzeville filed motions to dismiss McDonald's class action complaint and asserted, "that McDonald and the putative class alleged claims which were barred by the exclusive remedy provisions of the Illinois Worker's Compensation Act (820 ILCS 305/1 et seq.) (the "Compensation Act")."[11] In its motion, Bronzeville argued that "the Compensation Act is the exclusive remedy for accidental injuries transpiring in the workplace and that an employee has no common-law or statutory right to recover civil damages from an employer for injuries incurred in the course of her employment."[12]

First, the Circuit Court of Cook County denied defendant's motion, holding that "McDonald's injury involved the loss of the ability to maintain her privacy rights, which was neither a psychological nor physical injury and not compensable under the Compensation Act."[13] Next, the Illinois Court of Appeals for the First District affirmed the Circuit Court's dismissal of Bronzeville's motion, concluding that "a claim by an employee against an employer for liquidated damages under [BIPA]—available without any further compensable actual damages being alleged or sustained and designed in part to have a preventative and deterrent effect—[does not] represent the type of injury that categorically fits within the purview of the Compensation Act, which is a remedial statute designed to provide financial protection for workers that have sustained an actual injury."[14] Accordingly, the appellate court "conclude[d] that the exclusivity provisions of the Compensation Act do not bar a claim for statutory, liquidated damages, where an employer is alleged to have violated an employee's statutory privacy rights under [BIPA], as such a claim is simply not compensable under the Compensation Act."[15]

Bronzeville then appealed to the Illinois Supreme Court. Delivering the opinion for the Court, Justice Overstreet held that while Bronzeville had correctly noted in its petition to the Court that precedent existed in which the Illinois Supreme Court had previously "applied the plain language of the exclusivity provisions of the Compensation Act to preclude an employee's statutory cause of action against his employer in the circuit court, See *Gannon v. Chicago, Milwaukee, St. Paul & Pacific Ry. Co.,* 13 Ill. 2d 460, 463, 150 N.E.2d 141 (1958) (supreme court held that workmen's compensation statute barred employee's statutory action pursuant to the scaffold statute against his employer in the circuit court for injuries he sustained when he fell from a ladder while climbing to a scaffold in the course of his employment), we find that the physical injury that the plaintiff in *Gannon* suffered as a result of falling from a ladder in the course of, and arising from, his employment is distinguishable from the injury McDonald alleges…on behalf of herself and the class.[16]

The Supreme Court went on to discuss the history of both BIPA and the Compensation Act in order to analyze the plain meaning and intent of each statute, and concluded that the exclusivity challenge at issue ultimately depends upon the type of injury sustained because "[w]hether the exclusivity provision bars an employee's civil claims depends upon the nature of the injury because the exclusivity provisions, by their express language, only apply if the injury is one that is covered by the Compensation Act."[17] The Supreme Court went on to note that "The Compensation Act's main purpose is to provide financial protection for injured workers until they can return to the workforce."[18]

Conversely, the Supreme Court found that "[t]he personal and societal injuries caused by violating the Privacy Act's prophylactic requirements are different in nature and scope from the physical and psychological work injuries that are compensable under the Compensation Act. The Privacy Act involves prophylactic measures to prevent compromise of an individual's biometrics.

7 *McDonald v. Symphony Bronzeville Park, LLC,* 2022 IL 126511, ¶ 5
8 *Id* at ¶ 4.
9 *Id.*
10 *Id (internal citations omitted).*
11 *Id.* at ¶ 7.
12 *Id.*
13 *Id.* at ¶ 8.

14 Id at ⁋ 13.
15 *Id.*
16 *Id* at ⁋ 26.
17 *Id* at ⁋ 40 *(internal citations omitted)*
18 *Id* at ⁋ 41 citing *Interstate Scaffolding, Inc. v. Illinois Workers' Compen. Commn.*, 923 N.E.2d 266 (Ill. 2010)

McDonald's claim seeks redress for the lost opportunity 'to say no by withholding consent.' McDonald alleges that Bronzeville has violated her and the class's right to maintain their biometric privacy."[19]

Ultimately, the Supreme Court found that "the circuit court correctly reasoned that McDonald's loss of the ability to maintain her privacy rights was not a psychological or physical injury that is compensable under the Compensation Act. Likewise, the appellate court correctly held that a Privacy Act violation is not the type of injury that categorically fits within the purview of the Compensation Act and is thus not compensable under the Compensation Act…Accordingly, McDonald's Privacy Act claim for liquidated damages is not categorically within the purview of the Compensation Act."[20]

The outcome of *McDonald* lifts a significant ambiguity in the ability of employees to initiate litigation against their employer(s) in connection with BIPA violations. Such clear precedent from Illinois' highest court will only make Illinois an even more attractive jurisdiction for the plaintiff's privacy bar. It is critical that any employer contemplating the use of biometric technology to track their employees work or whereabouts ensure that they are in compliance with BIPA before instituting such policies. ■

For more information about BIPA, recent BIPA litigation or to seek consultation regarding the threat or initiation of BIPA litigation against you, contact Joel Bruckman at jbruckman@freeborn.com or another member of Freeborn's Litigation Practice Group.

Joel Bruckman is a Partner in the Litigation Practice Group and member of the Freeborn Insurance/Reinsurance and the Emerging Industries Teams. His practice includes complex commercial litigation with a focus on trade secrets and restrictive covenant matters. He also dedicates a significant portion of his practice to advising clients on data privacy and cybersecurity issues.

19 *Id* at ¶ 43 citing *Rosenbach v. Six Flags Ent. Corp.*, 129 N.E.3d 1197 (Ill. 2019)

20 *Id* at ¶ 44; See generally *Toothman v. Hardee's Food Systems, Inc.,* 304 Ill. App. 3d 521, 533, 238 Ill.Dec. 83, 710 N.E.2d 880 (1999) (in order for injuries to be compensable under the Compensation Act, there must be some "demonstrable medical evidence of injury"); *Marino v. Arandell Corp.,* 1 F. Supp. 2d 947, 951 (E.D. Wis. 1998) ("workers' compensation acts were not designed to regulate or deter employer conduct, but to financially compensate injured employees and, specifically, to redress impaired earning capacity").

Freeborn Elects Litigation Practice Group Members to Firm Leadership Roles

Joseph L. Fogel

Steven D. Pearson

The firm has elected Joseph L. Fogel to the Executive Committee and Steven D. Pearson as Co-Managing Partner. Mr. Pearson succeeds Mr. Fogel, who has acted as Co-Managing Partner since 2019.

As a member of Freeborn's Executive Committee, Mr. Fogel is responsible for strategic planning, the development of the firm's mission, oversight of firm committees, allocation of firm financial and management resources, and more. As Co-Managing Partner along with William E. Russell, Mr. Pearson is responsible for development and execution of the firm's overall growth strategy, overseeing firm operations, management of firm expenses, policies and procedures, as well as developing strategies to accomplish the firm's goals and initiatives.

Computer Fraud Insurance Coverage for Money Stolen through Fraudulent Emails

Patrick Frye, Partner

Powerhouse Points

- Computer fraud insurance coverage can apply to frauds based on faked emails.
- Coverage still applies even though company employees voluntarily participated in the fraud after they were tricked into paying the fraudster.
- Coverage will not apply if the express terms of the insurance make coverage contingent on the insured's lack of knowledge or consent.

Many cyber-losses are frauds that begin with an email to an insured company. Appearing to have been sent by an officer in, or a legitimate vendor for, the company, the email may demand that the company wire money to a specified bank account. After the company wires the money, it learns that the email was sent not by an officer or vendor, but instead by a stranger far abroad. That money is lost for good. To recover its loss, the defrauded company may turn to insurance commonly known as Computer Fraud coverage to seek to be made whole on the money it lost from a scheme in which it was a willing, albeit unwitting participant. Whether the company will actually obtain insurance proceeds for this loss depends on the exact circumstances of the fraud and the exact language of the insurance contract, as seen in the following examples.

Consider these scenarios in which an insured Company is defrauded:

1. Company receives an email apparently from its vendor's accountant—but this email address is one letter off the accountant's true email. The impersonator provides payment instructions for fulfillment of the Company's legitimate outstanding order with that vendor. After the Company pays the fraudster over $300,000, the real vendor inquires about payment on that order.

2. Upon taking a phone call from someone professing to be a Company vendor, a Company employee instructs the caller to submit any new wiring instructions by email. The next week, the Company's accounts payable department receives those instructions in an email from an account that appears to be—but in fact is not—the vendor's. After a Company employee calls the telephone number provided in the email to confirm the authenticity of the email, another Company employee implements the change, and the Company thereafter issues over $7 million in payments to criminals in Latvia, before the true vendor complains about the Company's arrears.

3. Company emails its Chinese vendor for submission of all outstanding invoices, and the vendor advises that it has changed its banking details. Company later receives an email from someone claiming to be the vendor, who requests several payments to a new bank account. (This imposter apparently intercepted the earlier emails between the Company and its vendor.) Having no process for verifying the changed information, Company simply makes for payments totalling more than $800,000 before the actual vendor demands the same payments.

4. Company CFO receives a response to his email to a vendor, in which response the vendor instructs that future payments should be sent to a new bank account. The CFO thereafter authorizes payments totalling $1.025 million to the new account by initiating the transfer through an online banking system, which was confirmed by a Company employee on the bank's website and orally authorized by the Company COO during a call with the bank. Afterwards, the genuine vendor demands the same payments.

5. A Company employee in accounts payable receives an email appearing to be from the Company president—the 'from' field displayed the president's name, email address, and picture. (The thief coded his emails to cause the Company system to falsely display them as truly from the president—i.e., the email is 'spoofed'.) This email notifies the employee to expect a call from an attorney, who later demands a wire transfer to him. After she advises the caller that this payment would require both an email making this request and the authorization of two other Company officers, she and those officers receive a second email ostensibly from the president. Then the employee initiates and the officers approve a $4.8 million transfer. The bona fide Company president later advises he had not requested the transfer.

In each case above, the Company sought reimbursement of those payments under insurance coverage against computer fraud, and the Insurer rejected that claim. Lawsuits followed. Three of the Companies won insurance coverage for their claims; the other two did not.

In the first case above, the court entered a verdict in favor of the Company. The Insurer promised to pay for loss of money “resulting directly from the use of any computer to fraudulently cause a transfer of that property” to someone or somewhere outside the Company’s premises. Although the payment immediately and necessarily followed from the Company employees’ authorization of it, the court deemed that payment a sufficiently “direct” result of the fraudulent email that induced them to do take that action. *Cincinnati Ins. Co. v. Norfolk Truck Center,* 430 F. Supp. 3d 116 (E.D. Va. 2019).

In the next case, the appellate court ordered judgment to be entered against the Company and in favor of the Insurer. This case’s insurance policy had the exact same language as the first case’s policy. This case’s result differed from the first case’s because the court decided that the imposter email was only “incidental” to the overall fraud. *Apache Corp. v. Great Am. Ins. Co.*, 662 Fed. App’x 252 (5th Cir. 2016).

In the third case, the appellate court held that Company’s claim fell within the insurance policy’s coverage for the “direct loss of . . . Money . . . directly caused by Computer Fraud.” This language was satisfied because the Company believed it was paying a legitimate debt, but instead paid an imposter solely because of a fraudulent email. *Am. Tooling Center v Travelers Cas. & Sur. Co.,* 895 F.3d 455 (6th Cir. 2018).

In the fourth case, the court held that the claim did not fall within the Insurer’s promise to pay for loss of money “resulting directly from Computer Transfer Fraud” that causes money to be paid to someone else “without the Insured Entity’s knowledge or consent.” Although the Company was clearly fooled into making the payments, its employees were aware of the payments—which they themselves authorized. *Miss. Silicon Holdings v. Axis Ins. Co.*, 843 Fed. App’x 581 (5th Cir. 2021).

In the final case, the court held the claim to fall within the Insurer’s promise to pay for the “direct loss of Money . . . resulting from Computer Fraud committed by a Third Party.” The court found coverage because the spoofed email changed data in the Company email system in order to deceive the recipients into believing that the email came from the Company president. *Medidata Solutions Inc. v. Fed. Ins. Co.,* 729 Fed. App’x 117 (2d Cir. 2018).

In these cases, the courts found coverage whenever the fraudulent email was central to the scheme and the insurance contract did not require the payment to be unauthorized. The courts were not overly strict in their application of the contractual requirement of loss being the ‘direct’ result of the computer fraud. They might have held that the payment was not such a ‘direct’ result because after the fraudulent email was received, the Company itself needed to authorize the payment and could have refused. Yet the courts took a more lenient view in favor of awarding coverage to the insureds.

This does not mean, however, that the same Computer Fraud coverage will always apply to those frauds—the law on insurance coverage varies from state to state; and all insurance contracts contain a variety of different exclusions that might apply. That said, a company believing itself to be vulnerable to this type of fraud should—after it bolsters its processes for avoiding these types of fraud in the first place—consider whether its existing insurance coverage might reimburse the stolen money. ■

Patrick Frye is a Partner in the Litigation Practice Group and member of the Insurance/Reinsurance Industry Team. He represents clients in commercial litigation, including coverage disputes and antitrust claims. He advises clients on litigation strategy and appears before arbitration panels and state and federal courts. Patrick has represented policyholders or client insurers in disputes over a wide variety of insurance products, including CGL, E&O/professional liability, D&O, and long-term disability policies.

Meet the Newest Litigation Practice Group Member

Stanton A. Fears, Tampa

Stanton is an Associate in Freeborn’s Litigation Practice Group, Insurance/Reinsurance Industry Team and Emerging Industries Team. He focuses his practice on defending companies of all sizes in a variety of disputes. Prior to joining Freeborn, Stanton was in-house litigation counsel at Raymond James Financial where he represented the company in securities-related disputes before FINRA arbitration panels.

The Federal Judicial Center Antitrust Monograph: Lessons on Employee Restrictive Covenants

Jeffery M. Cross, Partner

In the summer of 2016, the Federal Judicial Center approached me to write a monograph on Section 1 of the Sherman Act. The Federal Judicial Center is the educational arm of the federal courts. It asked me to write a basic primer on Section 1 for new judges or judges that did not have a great deal of antitrust experience. This past December, the FJC published an online version of the book which is entitled *Antitrust Law: Section 1 of the Sherman Act.* It can be found at fjc.gov/content/364998/antitrust-law-section-1-sherman-act.

Although I have been litigating Section 1 cases for over 40 years, and have taught antitrust as an adjunct professor for 15 years, I found the preparation of a basic primer for federal judges both challenging and rewarding.

I have always felt strongly that it is important to carefully read footnotes and textual citations in Supreme Court decisions. They often turn out to be very important in understanding the case. In preparing the FJC monograph, I not only carefully read the footnotes and textual citations, but also the cases and treatises cited by the Court. Time and time again, doing so revealed valuable insights, which I was able to share with readers of the monograph.

One of the most important of such insights is from the Supreme Court's footnotes in the area of employer and employee restrictive covenants. My careful review of those footnotes, and the authorities cited in them, allowed me to articulate a test for determining when Section 1 is implicated in such restrictive covenants.

"Agreement" is one of the two principal elements of Section 1. (The other principal element, of course, is "restraint of trade.") The word "agreement" does not appear in the statute. Only the words "contract, combination, or conspiracy" are found in the statute. But these words have been held to mean "agreement." See, e.g., *Edward J. Sweeney & Sons, Inc. v. Texaco, Inc.,* 637 F.2d 105, 113 (3d Cir. 1980). Conversely, independent conduct is not proscribed by Section 1.

In a seminal decision, the Court in *Copperweld Corp. v. Independence Tube Corp.*, 467 U.S. 752 (1984), held that, in order to implicate Section 1, an agreement must be between two independent centers of decision-making that previously had pursued their own economic interests separately. In another important decision, *American Needle, Inc. v. NFL,* 560 U.S. 183 (2010), the Court noted that the language of Section 1, if read literally, could be understood to mean every conceivable agreement, whether it involved a group of competing firms fixing prices, or "a single firm's chief executive telling her subordinate how to price their company's product." 560 U.S. at 189. But the Court rejected a literal approach to the language of Section 1. It also eschewed formalistic distinctions in favor of a functional approach considering "how the parties involved in the alleged anticompetitive conduct actually operate." 580 U.S. at 191.

In support of this functional approach, the Court cited paragraph 1462b of the antitrust treatise by Phillip Areeda and Herbert Hovenkamp, *Antitrust Law: An Analysis of Antitrust Principles and Their Application*. Paragraph 1462b articulated a test reflective of the holdings in *Copperweld* and *American Needle* that helps determine whether there is an agreement that implicates Section 1. The test asks if it is necessary for two or more participants to agree to effectuate the challenged conduct. Let's apply this test to the example given by the Court in *American Needle* of the chief executive officer of a company agreeing with one of her employees how to price the company's products. The chief executive officer of a company generally has the authority to price the company's products regardless of whether her employee agrees or not. In such a situation the "agreement" of the chief executive officer and her employee would not implicate Section 1 because there were not two independent economic actors who had previously pursed separate paths but came together in a concert of action.

Arguably consistent with the foregoing, the Court in *Copperweld* stated that "officers or employees of the same firm do not provide the plurality of actors imperative for a § 1 conspiracy." Copperweld, 467 U.S. at 769. Some lower courts have applied this statement literally to restrictive covenants in employment agreements, finding that Section 1 of the Sherman Act is not implicated. *See, e.g., Siren, Inc. v. Firstline Securities, Inc.,* No. Civ. 06-1109 PHX RCB, 2006 U.S. Dist. LEXIS 31903, at * 24-26 (D. Ariz. May 17, 2006); *Lofton v. TLC Laser Eye Centers,* Civ. No. CCB-00-1667, 2001 U.S. Dist. LEXIS 1476, at * 25-26 (D. Md. Feb. 8, 2001). But the Supreme Court in *American Needle* suggested that Section 1 may be implicated in certain circumstances. It stated that the conclusion that there are not two independent economic actors when officers or employees of a single corporation are involved is based on the presumption that "components of the firm will act to maximize the firm's profits." *American Needle,* 560 U.S. at 200.

However, the Court stated that "in rare cases, that presumption does not hold" when "the parties to the agreement act on interests separate from those of the firm itself." *Id.*

Here is where the digging into the footnotes and textual cites to the Court's opinion paid off for the monograph. To drive home the point regarding the "rare instances" when the presumption of aligned interests does not apply, the Court placed a footnote at the end of this passage – Footnote 8. The first citation in this footnote is to paragraph 1471 of the Areeda & Hovenkamp treatise. But further digging revealed that this paragraph was part of a section beginning with paragraph 1470 entitled "Employees Generally and Unincorporated Divisions." Paragraph 1470 contains language that supports the proposition that employee restrictive covenants are subject to Section 1 of the Sherman Act. This language notes that, when an agreement between an employer and employee is initially entered into, the employee is acting for itself. For this reason, there is an agreement between two independent economic entities. Application of the test referenced in an earlier cited paragraph from the Areeda & Hovenkamp treatise confirms this conclusion.

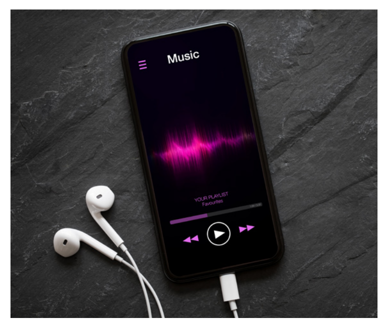
At the time of employment, the employer cannot effectuate the covenant not to compete on its own. It needs the agreement of the prospective employee, at least at the time the employee is joining the company. Consequently, such restrictive covenants are subject to the antitrust laws because there is, in fact, the type of agreement between two independent economic entities required to implicate Section 1.

Reading carefully all of the footnotes and textual citations in Supreme Court decisions obviously is time consuming. However, attention to these footnotes and citations are warranted for a more complete and, at times, a more practicable understanding of the Supreme Court's rulings. Such careful review of these decisions paid off in the making the monograph for federal judges more robust and meaningful. ■

Jeff Cross is a Partner in the Litigation Practice Group and a member of the Antitrust and Complex Litigation Team. Jeff has over 40 years of trial experience representing a variety of corporations and businesses throughout the country on antitrust, securities fraud, contract, real estate, environmental regulations, libel and slander, false advertising, commercial code and trade regulation issues.

Pandora Hit With Multiple Copyright Suits By Comedians, Including the Estates of Robin Williams and George Carlin

Nellie C. Stoeckel, Attorney



Early in his career, Robin Williams was regarded by fellow standup comedians as a notorious joke thief, a fact he openly admitted on Marc Maron's WTF Podcast back in 2010. Stand-ups were known to walk offstage mid performance if they spotted Williams in the audience to prevent him from stealing their material, a practice Williams himself dismissed as "joke sampling." In an ironic twist, the estate of the late comedian and actor has filed a lawsuit against Pandora Media LLC, the world's largest digital broadcast and streaming music provider, alleging the company lifted Williams' material by illegally airing his old performances without permission.

In addition to the Robin Williams' estate, other celebrated stand-up comedians have hit Pandora with lawsuits alleging copyright infringement. Andrew Dice Clay, Ron White, Bill Engvall, and the estate of late comedian George Carlin similarly claim the platform illegally aired their performances by failing to obtain the necessary licenses and permissions in violation of the Copyright Act.

The five lawsuits argue that the failure was a deliberate act intended to circumvent paying royalties: Pandora took several of each comedian's works, knowing it possessed neither the valid licenses to publicly air those works, nor the licenses required to distribute and reproduce the works. Before its acquisition by Sirius XM Radio, Pandora disclosed in its SEC filings that it "could be subject to significant liability for copyright infringement and may no longer be able to operate under their existing licensing regime."

After Sirius' acquisition of Pandora was completed in 2018, Pandora removed the admission. According to 17 U.S.C. §§ 106 and 204 of the Copyright Act of 1976, copyright owners have the exclusive right to reproduce, distribute, license, and publicly perform their works. Anyone seeking to obtain the right to do so must request a license from the respective copyright owner(s) of both copyrights and agree to pay royalties.

The plaintiffs contend that Pandora has a duty to seek out copyright owners and obtain valid licenses, and therefore, its failure to do so constitutes copyright infringement.

A recorded performance of a literary work has two sets of copyright: one for the sound recording, the other for the underlying spoken word (composition). Similarly, a musical work is covered by two copyrights: one for the sound recording, the other for the written music. Streaming services like Pandora pay royalties to the owners of each copyright. The comedian's composition or work is their written material: *the jokes*. However, streaming services like Pandora pay only for the comedian's recording, not the material. Historically, the work of stand-up comedians has not been accorded the same breadth of protection and safeguards under copyright law, but the status quo soon may be upended pending the outcome of current litigation.

Each lawsuit seeks an accounting of Pandora profits from the alleged infringement, in addition to reasonable royalties (the maximum statutory damages, which is $150,000 per copyrighted work), attorney's fees and interest. For each plaintiff, the amounts would be as follows: $8.4 million for the George Carlin estate; $4.1 million for the Robin Williams' estate; more than $7.65 million for Bill Engvall; $8.56 million for Andrew Dice Clay; and $12.4 million for Ron White.

Copyright law also requires digital service providers like Pandora to obtain a *mechanical digital reproduction license* from the owner of the composition in order to make the recording available for reproduction and distribution through interactive streaming, even where the digital service provider has a license to interactively stream a sound recording. The comedians' lawsuits allege that Pandora failed to obtain the required additional license when offering their works through its Premium interactive streaming service.

A similar dispute recently arose between Spotify, one of the world's largest audio streaming providers, and Spoken Giants (SG), a global rights administration company for owners and creators of Spoken Word copyrights. SG represents comedians such as Mike Birbiglia, Tiffany Haddish, Kevin Hart, Jim Gaffigan, John Mulaney, and the estates of Bob Hope and Lucille Ball. SG argued that comedians deserve royalties on their written work, not just the audio of their performances, and demanded Spotify compensate its clients according to the music industry's method, where royalties are paid separately to writers of works and to those who perform the master sound recording. In swift response, and without notice, Spotify removed from its platform hundreds of comedy albums represented by SG.

Powerhouse Points

- Entertainment clients should see the law swinging in their favor as copyrights bolster protection of their work.
- Media clients should use caution since the filed is changing and there is an increased awareness on the value of the work and protection of the rights of the entertainers.
- The work of stand-up comedians has not been accorded the same breadth of protection and safeguards under copyright law, but the status quo soon may be upended pending the outcome of current litigation.

Should plaintiffs prevail, the outcome will have immediate, far-reaching impact upon the performance industry, and likely will push audio streaming and media service providers to reconsider how to compensate comedians, given growing demand to offer them the same protections as musicians.

Streaming platforms such as Pandora and Spotify may have no recourse but to either limit or entirely remove the performances of some of world's most celebrated comic talent, given additional royalties they may have to pay.

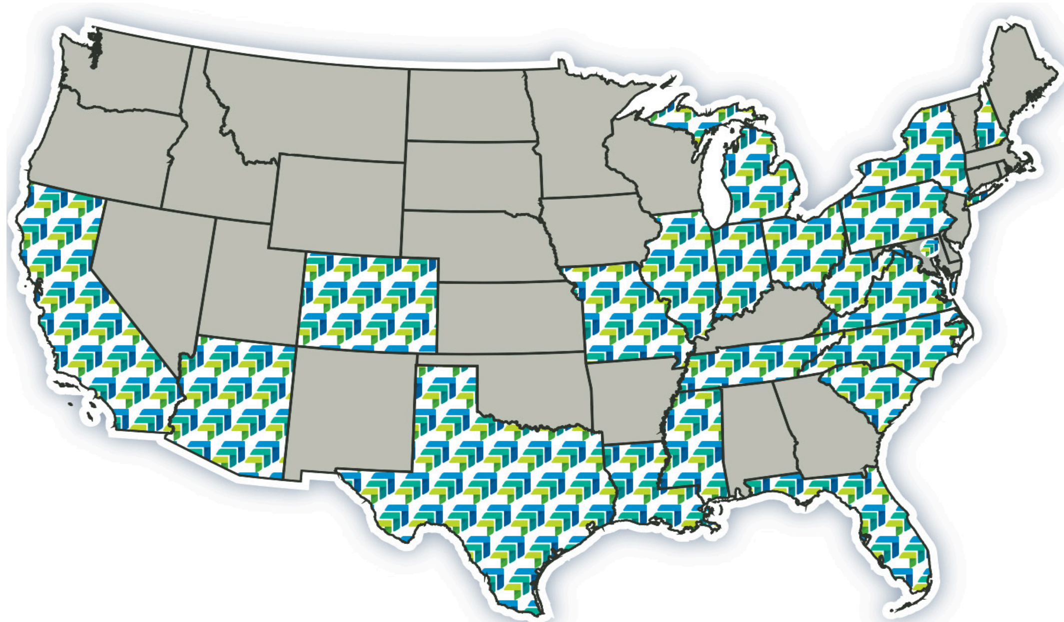
For entertainment clients, the law seems to be swinging in their favor as copyrights bolster the protection of their work and protect their intellectual property.

For our media clients, we would caution that the field is changing and there is an increased awareness on the value of the work and protection of the rights of the entertainers. With regards to podcasts, we may see a move towards deals where companies can pay for the full rights, as opposed to leasing them per play, such as Spotify's large deal for the Joe Rogan podcast.

As streaming media services continue to expand and compete against one another for market share, the search for content will grow. Companies will have to choose whether to pay for the rights to use well-established artist's work or gamble on fresh content and hope for success. The choice will be hefty either way. ■

Nellie Stoeckel is an Associate in the Litigation and Intellectual Property Practice Groups. Nellie has managed large-scale discovery for complex cases in both state and federal courts.

RECENT LITIGATION BY STATE



HIGHLIGHTED WINS

- A team of Freeborn attorneys, in partnership with the National Immigrant Justice Center, prevailed on behalf of a pro bono client in an asylum trial against the government's robust efforts to deport our client back to Cameroon. The client fled Cameroon after the military arrested and tortured her because of her political identity, and for participating in a peaceful protest against the marginalization and unjust treatment of Southern Cameroon. Even after she fled, the military continues to search for and threaten her, so she cannot return for fear she will be imprisoned or murdered. The client was recently granted protection in the U.S.

- Secured summary judgment on behalf of closely held corporation in contentious breach of fiduciary duty claim.

- Obtained reversal of an unfavorable decision on appeal, resulting in case going back to trial court for decision on trial regarding avoidance of fraudulent transfers under Pennsylvania state law.

- Successfully prevailed on motion to dismiss a breach of contract claim with prejudice on behalf of client North Carolina company. Plaintiff claimed that under its business brokerage agreement, it was entitled to a commission when defendant client completed an internal company restructuring. The court found that while the transaction at issue may have qualified as a commission triggering transaction, plaintiff's claim was defeated by defendant's evidence and dismissal was warranted with prejudice because plaintiff failed to comply with Supreme Court Rule 191(b). Plaintiff's motion to reconsider was denied. (*Circuit Court of Cook County, Illinois*)

- Successfully dismissed 7-count complaint containing claims of breach of fiduciary duty, conspiracy, and violations of the Illinois Securities law, as well as defeated a motion for reconsideration of the dismissed claims, in a lawsuit involving members of a local start-up company. (*Circuit Court of Cook County*)

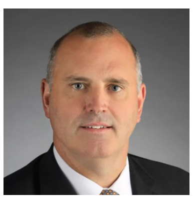
- Successfully handled two related legal malpractice cases involving both trustee and receiver issues which were vigorously litigated by plaintiff for almost three years. Plaintiff claimed the amounts in controversy were above seven figures, but on the eve of the first trial, the plaintiffs voluntarily dismissed both cases with prejudice, with our client paying nothing. (*Florida Circuit Court*)

ABOUT FREEBORN'S LITIGATION POWERHOUSE®

With more than 90 litigators, Freeborn's Litigation Practice Group brings both bench strength and deep experience to each client matter. Known as a Litigation Powerhouse®, we are 'litigators first' and our philosophy is to prepare cases to be tried. Even when settlement is appropriate, we believe our trial-ready approach provides the best ultimate outcome.

Each of our litigators are trained, first and foremost, to understand our client's business and their goals for litigation. Within the context of their goals, our focus is obtaining the best result possible for their business. Our success is based on knowledge of the process and our ability to efficiently organize and prepare our cases. Whether the litigation requires a single lawyer or a team of 20, we are trial-ready lawyers, equipped to provide client-focused results.

MEET THE EDITORS



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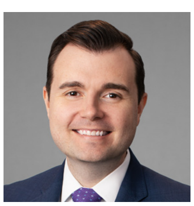

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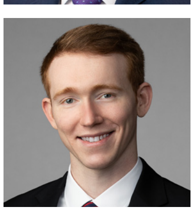

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